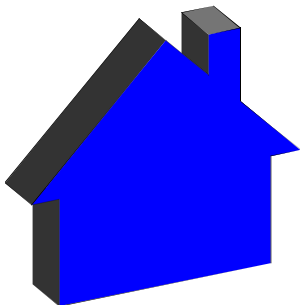
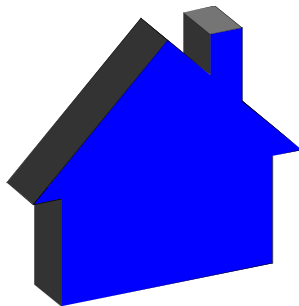
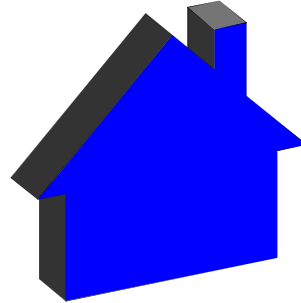
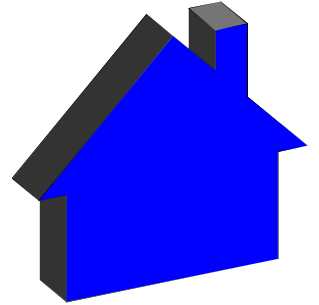


# Semiannual Report to the Congress

as of March 31, 1998



## INSPECTOR GENERAL'S MESSAGE

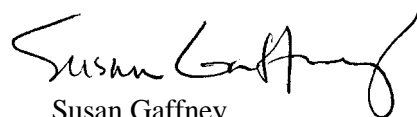
This year marks the twentieth anniversary of the Inspector General Act of 1978. Permit me some reflections on what has been accomplished over those 20 years.

I think it's fair to say that, over the years, the Federal Offices of Inspector General (OIGs) have become increasingly skilled and professional in carrying out their jobs. That is certainly the case at the HUD OIG, where we have also exhibited significant innovation and flexibility in trying new approaches to bring about positive change in HUD programs and operations. We are believers in HUD's mission, and we have come a long way in understanding that our real purpose is to see that HUD funds go to help people in need, rather than being diverted through fraud, waste, or abuse.

At the same time, I don't think we can say that, over the years, relationships between IGs and their agency heads have steadily improved. The IG concept is alien to appointees from outside the Federal Government. And, when such appointees grasp the concept, it often makes them uncomfortable. This lack of comfort with the IG concept is quickly perceived by agency personnel, leading to a situation where IG findings are seen as adversarial rather than as opportunities to improve. As a result, IGs may find themselves repeating the same recommendations year after year after year.

I believe that the Executive Office of the President and the Congress need to make sure that top political appointees understand the IG Act and understand that they are expected to support it. In today's environment of downsizing and contracting out, it is more important than ever that independent and objective IG work is valued and used by agency management.

On the HUD front, the most critical issue warranting the Congress' attention is the HUD 2020 Management Reform. In our last semiannual Report to the Congress, we urged that more time be devoted to development of the Reform Plan, in order to allow for more involvement by HUD stakeholders, more thoughtful analysis of staffing needs, and fuller definition of the costs and benefits of the Plan. That generally did not happen. Downsizing and personnel reassignments happened, while detailed plans for many aspects of the HUD Reform are still evolving. Inevitably, this has resulted in confusion and workload imbalances. We have outlined for the Congress critical actions that need to be implemented over the next 6 months to equip HUD to carry out its mission under the HUD 2020 Management Reform Plan.



Susan Gaffney  
Inspector General

# **HUD Management Issues**



# HUD 2020 Management Reform Plan

HUD is undergoing the most dramatic reorganization in its 33-year history. HUD's announcement of its ambitious reform plan in June 1997 promised major organizational changes and staffing reductions. HUD has moved from about 13,500 staff, 5 years ago, to a staff of around 9,100 today. The plan is to reduce staff levels even further in the next 4 years to a target level of 7,500. HUD's ability to operate efficiently and effectively at its smallest staff level ever depends heavily on the success of several critical components of the Reform Plan. Many of these planned actions, linchpins to the reform effort, are untested and in their early stages of development. Later in this Chapter, we will discuss some of the more critical planned actions and their status.

## HUD's Current Reform Efforts

To date, HUD's reforms are almost entirely focused on organizational changes which are intended to bring about operating efficiencies. However, HUD's future depends on far more than successful organizational changes. A critical reform step, which HUD has not addressed, is to develop a clearly defined business mission.

The Secretary, the Office of Management and Budget (OMB), and the Congress must work together to see that the Department has a focused business mission. HUD's Five-Year Strategic Plan and the 2020 Management Reform Plan define HUD's mission as "Empowering People and Communities" and "Restoring the Public Trust." Measuring the successful implementation of such a broadly defined mission is all but impossible. A business mission should be developed within the confines of HUD's reduced staffing structure. The mission should provide for realistic, achievable, and measurable objectives.

Typically, developing supporting programs and policies is the next step in building upon a clearly defined business mission. Once the mission, programs and policies are in place, the next steps in an effective reform plan would be the fine tuning of the organizational structure, and identifying the necessary resources to carry out the mission. Finally, good management systems are needed for the organization to meet its mission, help measure achievements, establish internal controls, and allow for adjustments of resource priorities as workload and circumstances change. HUD's reform must go beyond organizational change to truly be effective.

There are relatively few programmatic changes envisioned in the HUD 2020 Reform Plan, primarily because that would require legislation and legislative change can be time consuming. The Secretary has made it clear that he wants rapid change. HUD 2020 addresses some aspects of personnel as well as organizational changes. But largely, it does not address basic system and internal control improvements that are essential elements in reforming a major organization.

HUD must focus on clarifying its mission and consolidating its programs if it wants to continue in business. A July 1994 report by the National Academy of Public Administration (NAPA) stated in part: "The Department should be preserved only if it can demonstrate the capacity to manage its resources...." The report went on to state: "If after 5 years, HUD is not operating under a clear legislative mandate and in an effective manner, the President and Congress should seriously consider dismantling the Department.... The Administration, HUD and Congress must proceed expeditiously with a comprehensive consolidation and reauthorization of all HUD's programs.... Until HUD can get its programmatic house in order, no amount of tinkering with management will cure the organization." Since the time of NAPA's report, HUD programs and activities have increased to over 300 from about 200. Even HUD's published reform plan acknowledged the structural dysfunction caused by the "proliferation of a number of small 'boutique' programs which are highly labor intensive."

Many of the changes proposed in HUD 2020 are attractive concepts. These concepts include centralization of operations across program "cylinders" and greater use of technology. Also, the Plan centralizes common functions



such as enforcement and real estate assessment.

## Critical Future Actions

Critical to the success of the HUD 2020 Management Reform Plan will be the completion of key actions over the next 6 months. These critical areas form the framework for many other changes taking place throughout the Department. Without this framework, HUD would need to return to the old way of doing business. However, turning back is no longer an option with HUD's diminished staff resources. As originally planned, most of the reform issues discussed below are well past their original target dates. We recognize that many of the planned action dates were overly ambitious. However, given the already lengthy transition period, it is important that certain key actions be completed within the next 6 months. This will be the measure of success for the HUD 2020 Management Reform Plan.

- *The Real Estate Assessment Center must become operational and be supported by fully tested and implemented physical and financial assessment protocols. These protocols must be affordable and provide the necessary gradation to identify problem properties.* The Real Estate Assessment Center will feed information to Hubs, Troubled Agency Recovery Centers, and the Enforcement Center for monitoring and enforcement actions.
- *Contracting for project-based Section 8 administration must be completed. Also, HUD must assure that contractor costs are reasonable and that a system is in place to monitor contractor performance.* Under the 2020 Plan, HUD plans to move from retail to wholesale for project-based Section 8 administration. Section 8 administrative activities currently performed by HUD staff for 21,000 subsidized projects will be contracted out. HUD will refocus on contract oversight. As discussed in our latest financial statement audit, HUD's past oversight of Section 8 payments to project owners has been weak, primarily due to inadequate staffing. Also, HUD cannot address this subsidy payment weakness until the successful transfer of responsibilities to contract administrators is completed.
- *HUD must contract for the disposition and/or management of HUD owned single family properties (REO) and develop a system for contractor oversight. Contracting decisions must be cost effective and keep in mind any mission requirements.* HUD is proceeding with the untested plan assumption that the private sector can purchase HUD's pipeline of foreclosures or notes and dispose of properties quicker and cheaper. This eliminates the need for hundreds of HUD staff.
- *The Troubled Agency Recovery Centers must become operational and must be supported through input from the Real Estate Assessment Center.* HUD's oversight strategy for public housing agencies (PHAs) should be finalized. The Troubled Agency Recovery Centers must be sufficiently able to handle the volume of activity with either HUD or contractor staff.
- *The Office of Multifamily Assistance Restructuring must become operational and begin taking action on restructuring mortgages.* The law, enacted in October 1997, permits HUD to restructure troubled project mortgages to market levels. It also provides for separate staffing for the function. The legislation requires implementation by October 1998. The Office of Housing is concerned that implementation may not occur within the mandated implementation date because they do not have the capacity to develop final implementation plans. While a contract with a management consultant that has appropriate skills is needed, the award has been delayed.
- *Sufficient budget and contract dollars must be available in the long term to make the Reform Plan work.* There remains great uncertainty as to the cost of many of the items discussed above. For example, the physical



inspection protocol is still being refined. The more detail contained in the final protocol, the more costly the inspections will be. If details are cut out to reduce costs, then the assessment may not work. There is also uncertainty as to the cost of Section 8 contract administration and REO.

- *HUD must develop an acceptable procurement process.* HUD 2020 is placing a great deal of reliance on contracting to carry out the functions of the Department with a downsized staff. Because of the volume of contracting anticipated, it is critical that the Department have a procurement process to assure that contracting is administered in an efficient and cost effective manner. Weaknesses in contract administration were discussed in our September 1997 audit report on HUD contracting. To date, HUD actions to correct the weaknesses include contracting with NAPA to review the procurement system and hiring a Chief Procurement Officer in March 1998. While ambitious plans for correction have been developed, changes have not yet been implemented.

## Legislation

Some of HUD's reforms are tied to the enactment of legislation. These legislative changes would enable a more efficient operation with fewer staff. However, the Department has not aggressively pursued the legislative changes originally proposed under its 2020 Management Reform Plan. In our last Semiannual Report, we identified 10 legislative changes that are critical to the original Reform Plan. Among those changes are program consolidation and streamlining and mandating judicial receivership for PHAs that are in "troubled" status for more than 1 year. HUD has proposed legislation this year to terminate 81 inactive programs and activities. However, these inactive programs have little or no impact on staffing resources. The Congress, OMB and HUD need to come to an agreement on a business mission and seek out additional legislative changes to make the Department operate more effectively.

## Weaknesses in HUD's Basic Management Systems

Fiscal Year 1997 is the seventh year of HUD's Financial Statement Audit under the Chief Financial Officers Act. Most of the material weaknesses and reportable conditions in our current audit were reported in prior years. HUD has been taking action to address these weaknesses, but, for the most part, progress has been slow. This is in large part because HUD needs to address issues that fundamentally impact its internal control environment, including basic management systems and mission definition. HUD's ability to implement 2020 is impacted by weaknesses in basic management systems and mission definition. Weaknesses in the internal control environment discussed in our most recent financial statement audit report include efforts to upgrade financial management systems, correct resource management shortcomings, address weaknesses with the management control program, improve program performance measures, improve controls over subsidy payments, and improve monitoring of program participants.

### *Financial Management Systems*

Reliable and accurate financial management systems will be critical to HUD's downsized environment. The integrated financial management system under development includes not only financial data, but also an Executive Information System and Geographic Information System containing consolidated data from programmatic feeder systems and/or data warehouses. Although HUD has revised its integration strategy under HUD 2020 and is making progress, we remain concerned over the Department's ability to control performance of the implementation contractor, and control project schedules and costs. These concerns are based on the results of our most recent financial statement audit and other reviews that have shown that, historically, system development has been problematic. Because the integrated system is dependent on feeder systems, HUD needs to simultaneously take action to address Year 2000 issues, system development issues for the Real Estate Assessment Center and Enforcement Center systems, and data clean-up efforts.



## *Year 2000*

On January 1, 2000, some of the Department's computer systems could malfunction or produce incorrect information. HUD recognized the Year 2000 problem 2 years ago and established a Year 2000 Project in the Office of Information Technology. Both the awareness and assessment phases of the project have been completed. However, HUD needs to use several "industry recognized" best practices to minimize the risk and impact of system failures. While some progress has been made, because of the potential ramifications of system failures, immediate action needs to be taken to assure that systems properly function in the Year 2000.

- First, HUD should establish an agency-level program office to manage and coordinate Year 2000 activities. With limited time remaining, an executive level office should control the accuracy and timeliness of reporting, and make the hard decisions regarding business priorities and resource allocation.
- Second, HUD must control changes made to systems software and associated documentation throughout the development and operational life of the system. Although HUD agreed over the past 3 years to implement such controls, only 2 of the 75 critical applications are partially controlled. Without these controls, HUD cannot track needed corrections for the Year 2000.
- Third, contingency plans must be developed to handle system failures in the Year 2000. Without contingency planning, if Year 2000 system failures occur, HUD will be unable to write new and/or maintain existing single and multifamily insurance and long-term housing subsidy commitments. Disruption to the subsidy processing system could have a devastating effect on PHAs, owners, and residents.

## *System Development Issues for the Centers*

The new Centers are heavily dependent on technology. The Real Estate Assessment Center has made substantial progress toward developing a viable automated physical inspection system. A separate effort is underway to develop the financial protocol evaluation for PHA and project-based multifamily properties. However, the Enforcement Center still has not defined its information needs. It plans to rely on the Real Estate Management System developed by the Office of Housing to track enforcement cases. Because this system will not provide access controls over sensitive legal action information, the Enforcement Center needs to immediately define the data and security requirements for managing enforcement actions.

## *Data Clean-up Efforts*

The Department realized the importance of data clean-up as part of HUD 2020, but this is a huge task. Serious data integrity problems exist in feeder systems for critical data elements such as funding levels, reserve levels, renewal information, and tenant data. Further complicating the clean-up effort, data elements in one system may disagree with the same elements in companion systems. It is a staff intensive effort to correct problems that have built up over years of neglect.

The Chief Financial Officer (CFO) is managing a coordinated data clean-up effort for elements that will feed the Community 2020 data base and the new Integrated Financial System. However, the effort is still in the early stage and is not expected to be completed when the new financial management system comes on-line later this year. The CFO needs to develop a project plan with specific tasks for correcting erroneous data in supporting systems. The plan should also address long-term mechanisms for problems controlling data quality.

## *Resource Management*



Resource management remains a material weakness as reported in our most recent financial statement audit report. In answer to concerns over the adequacy of staffing, the Department contracted with a consulting firm, whose final report concluded that a staffing level range between 7,400 and 8,100 would be adequate to carry out the Department's responsibilities under HUD's 2020 Management Reform Plan. However, the consultant report noted that the validity of this staffing level is contingent upon successful implementation of the new organizational structure, processes and systems, passage of legislative program consolidations, and the realization of the benefits of portfolio reengineering.

HUD staffing during the last year has been reduced to about 9,100 employees. Many HUD staff have been selected for new positions in the various Hubs and Centers but continue in their old jobs until the many administrative details of the reorganization are worked out. Some staff have been waiting for several months. During the transition, while the workload has not changed, there are fewer people to do the work. Consequently, as reported in our latest financial statement audit report, necessary work activities, such as property inspections and financial statement reviews, are not being done during the transition. Further, in some cases the Department is compensating for staff voids through contracting.

Finally, under HUD 2020, major training dollars are required as staff take on new jobs and responsibilities. Training is required for employees who took positions in areas where they had no experience because their organization was downsizing. For example, employees in Single Family Housing who have new jobs in Public Housing need to be trained in Public Housing Programs. Newly designated Community Builders require extensive training in HUD's entire operation. Inspectors will need training in the use of new inspection protocols. Enforcement Center employees will require intensive training in asset management functions.

### ***Verification of Subsidy Payments***

HUD spent about \$18 billion in FY 1997 to provide rent and operating subsidies benefiting over 4 million lower-income households through a variety of programs, including Public Housing and several variations of the Section 8 Program. HUD's control structure in place during FY 1997 did not provide reasonable assurance that these funds were expended by PHAs and project owners in compliance with the laws and regulations authorizing these programs.

The Congress provided HUD with access to federal income tax data to ensure that subsidies are based on correct tenant income. Computer matching pilot projects are currently underway in both the Offices of Housing and Public and Indian Housing, using unplaced staff in the Chicago Office. HUD estimates housing subsidy overpayments of \$939 million based on computer income matching with federal income tax data. The CFO is responsible for addressing the income verification weakness. However, at the time of our financial audit, HUD 2020 plans had not been finalized with respect to how the Department would permanently staff an ongoing income matching program. The legislation does not allow HUD to disclose federal income tax data to PHAs, contract administrators or project owners. In light of plans to contract out the subsidy payment process to contract administrators, HUD must decide how it will use these matching tools in the future and whether additional legislative authorities are needed.

### ***Monitoring of Program Participants***

HUD 2020 defines key initiatives aimed at improving HUD's monitoring of multifamily projects and reducing losses to the FHA fund. These include the Real Estate Assessment Center and contracting out administration of subsidy payments to contract administrators, such as State Housing Finance Agencies and PHAs. Pending the establishment of the Real Estate Assessment Center, the Office of Housing has no mechanism to review financial statements or conduct inspections. When HUD 2020 reforms were initiated, the Office of Housing did not take actions to find a replacement financial statement review contractor and abandoned efforts to conduct physical inspections.





HUD 2020 also aims to improve monitoring and performance of the Public Housing Program. The Office of Public Housing's new field office organizational structure will include Hub offices and Program centers, the Real Estate Assessment Center and Troubled Agency Recovery Centers. While we agree on the need to improve the oversight of the Public Housing Program, the Department's plans to monitor and improve performance in this area are not fully developed and have been changed a number of times. Until the new Real Estate Assessment Center is fully operational, we are unable to assess HUD's ability to fully monitor public housing. The Real Estate Assessment Center is to establish standard inspection protocols to assess the physical condition and quality of public housing. It is also to work more closely with the non-federal audit community, placing greater emphasis on independent confirmation of PHAs' Public Housing Management Assessment Program process.

## **Internal Controls and Management's Control Program**

As HUD operates in the middle between the new HUD 2020 Management Reform Plan organization and the old organization, the Department is very vulnerable. Established policies and procedures have not been developed for the new organizational structure and there is confusion over roles and responsibilities. HUD 2020's organizational structure was developed without evaluating the potential risks that may evolve as a result of the reorganization. To the Department's credit, under HUD 2020, a Office of Risk Management has been established in the Office of the CFO. They have just begun to perform risk assessments on the new organizational structures. However, these risk assessments may be too late in the process to make significant changes.

In conclusion, our audit of HUD's financial statements, as well as our review of HUD's reorganization efforts, show that the Department is in a state of major transition. It is apparent that several months, if not years, will pass before the Department is settled enough to see any fruits of its labors. If communities are better served and the public's trust in the agency is restored, then the HUD reform effort will have been successful. However, without some objective measurement of these goals, it will be difficult for anyone to know where HUD stands in this process.



# Operation Safe Home

Violent crime in public and assisted housing, fraud in public housing administration, and equity skimming in multifamily insured housing have been the focus of this initiative since its inception in February 1994.

Operation Safe Home differs from traditional OIG work in that it is highly targeted and proactive. It employs non-traditional techniques. It represents a long-term, sustained commitment to reducing targeted vulnerabilities. Through the creative and aggressive efforts of our personnel, life in public and assisted housing is changing, criminals are receiving prison sentences, and monies are being recovered.

The following reflects the activity, by state, for each of the three areas under Operation Safe Home.



# Violent Crime in Public and Assisted Housing

The results of our Safe Home efforts are becoming more obvious as we continue our work in attacking violent crime in public and assisted housing. Crime statistics are showing decreases in the types of crime we are focusing on and the residents of housing complexes are showing their support by participating in the post enforcement activities that result from our law enforcement efforts. Our witness relocation program has successfully protected witnesses, relocating them out of harm's way and thereby enabling them to give testimony against the criminal element in communities where criminals normally would not be prosecuted. The following reflects the accomplishments that have been achieved since Operation Safe Home was initiated in February 1994.

Our efforts to combat violent crime are based on initiating and/or participating in federal, state, and local law enforcement task forces that focus their attention on violent crime in and around public and assisted housing complexes. In addition to the law enforcement personnel from states, counties, cities and housing authorities, the following federal agencies are primary partners in Operation Safe Home: the Federal Bureau of Investigation (FBI), the Drug Enforcement Administration (DEA), the Bureau of Alcohol, Tobacco and Firearms (ATF), the U.S. Secret Service (USSS), the U.S. Marshals Service (USMS), the U.S. Postal Inspection Service (USPS), the U.S. Customs Service (USCS), the U.S. Immigration and Naturalization Service (INS), the Internal Revenue Service (IRS), and the Department of Justice (DOJ).

Illustrative examples of task force results during this period are presented below by state. In various of these examples, there are references to locations as "Priority Cities." The "Priority Cities" are 13 locations where, at the direction of the Attorney General, the U.S. Attorney's Office serves as the coordinator to pull together efforts of law enforcement agencies, housing managers, residents, and public service groups to reclaim violence-plagued areas of publicly funded housing.

## Summary of Results

Activity	Current Reporting Period	Cumulative to Date
Arrested	2,341	15,602
Seized Weapons <sup>1</sup>	309 <sup>1</sup>	2,169
Cash	\$1,029,224	\$4,611,751
Drugs <sup>2</sup>	\$3,707,430	\$28,946,345
Search Warrants	323	1,902

<sup>1</sup> Includes 30 shotguns and assault weapons seized during this reporting period, for a total of 220 to date.

<sup>2</sup> Estimate based on measurable quantities.

## Law Enforcement Task Forces

March 31, 1998



## California

In **San Francisco**, a “Priority City,” the San Francisco Police Department’s Housing Task Force and OIG served a search warrant on an apartment in the Potrero Terrace public housing complex and arrested five individuals. The warrant resulted from an investigation substantiating that a group of individuals, who were illegally residing in public housing, had taken over the distribution of crack cocaine in the Potrero Hill area. Quantities of rock and powder cocaine and \$1,500 in cash were seized.

An undercover operation at the Rampton Arms Apartments, a multifamily housing development in **San Diego**, focused on the sale of narcotics and firearms. Six arrests were made and 51 stolen vehicles were seized at the culmination of the effort. The management of the Rampton Arms Apartments, which is located across the street from the County Sheriff’s detention facility, was extremely supportive during the undercover phase of this operation.

Ten search warrants were executed at Section 8 apartments located in **Hayward** as the result of numerous calls for service by residents living in and around the apartment complex. This section of the city is the known territory of the “A” street gang, a Mexican/American gang associated with several homicides and drive-by shootings. Seven Section 8 residents were arrested and 25 rocks of crack cocaine and some heroin were confiscated. The Housing Authority is reviewing the individuals’ files in anticipation of eviction proceedings. This task force is comprised of OIG, the Hayward, Newark and Livermore Police Departments, Alameda County District Attorney’s and Sheriff’s Offices, State Bureau of Corrections, and Housing Authority personnel.

In **Los Angeles**, continuing operations at the Ramona Gardens and Jordan Downs public housing developments resulted in the arrest of four individuals after the execution of federal search warrants involving parole violators. Two of those arrested are known to be associated with the *Big Hazard* gang, which is believed to be responsible for illegal drug activity and associated violent crime within Ramona Gardens. Four weapons, over \$15,000 in cash, and cocaine were seized. The investigation was conducted by the Los Angeles Police Department, the Parole, Probation and Sheriff’s Offices along with the FBI and OIG.

A task force made up of Officers and Agents from the Los Angeles Sheriff’s Department, FBI and OIG conducted surveillance operations focusing on illegal drug activities in and around the Nickerson Gardens public housing development. Task force members seized 8 kilograms of powder cocaine with an estimated street value of \$120,000 from a suspect’s vehicle. The seizure was part of a larger operation to target drug dealers who are supplying drugs to the Jordan Downs and Nickerson Gardens developments.

## Colorado

Several operations in which OIG was involved occurred in **Denver**. The following identifies each operation and its results:

Task Force	Drugs Confiscated		Result
<b><i>Metro Gang</i></b>  FBI, OIG, Denver and Aurora Police Departments	Two members of a Chicago gang were among those arrested at a HUD assisted housing unit.	marijuana	4 arrests. Also confiscated: 3 weapons, \$10,000 in cash



Task Force		Drugs Confiscated	Result
<b>HUD OIG</b>  OIG, Denver Vice & Narcotics Bureau	Search warrants, knock & talk operations, sales of narcotics to undercover officers at several public and assisted housing locations. One search warrant uncovered a crystal methamphetamine lab in an apartment.	cocaine	11 arrests. Also confiscated: \$15,300 in cash
<b>Denver District 2 Impact Team</b>	Controlled buy of heroin ☺ at a tire shop located in a Safe Neighborhood Action Plan (SNAP) area also netted 16 balloons of heroin and cash.	cocaine, heroin	1 arrest. Also confiscated: \$500,000 in cash
<b>Metro Gang</b>	Search warrants and knock & talk operations, mainly in Section 8 apartments in Southeast Denver.	marijuana, cocaine	6 arrests. Also confiscated: 1 weapon, \$870 in cash

During an investigation into drug trafficking in public and assisted housing in **Colorado Springs**, an arrest warrant was served on a twice convicted felon who had previously sold methamphetamine and firearms to an ATF Agent. A search of his home resulted in the seizure of another firearm. During his arrest, the individual made a comment that due to Safe Home activities in Colorado, the supply of methamphetamine was drying up in the area. The efforts of this task force, comprised of the ATF, DEA, OIG, and Colorado Springs Police Department, have resulted in 2 arrests and the seizure of 10 weapons, \$38,000 in cash, 12 ounces of methamphetamine, and 4 grams of crack cocaine.

## ***Connecticut***

Operations conducted by the FBI, OIG, DEA, ATF, State Police, Connecticut Department of Corrections, and the **Hartford** Police Department involved the service of federal arrest warrants based on prior enforcement activities and consensual searches. These law enforcement efforts were focused by OIG-led task forces in Section 8 neighborhoods as well as such public housing complexes as Bowles Park, Westbrook Village, Dutch Point, Charter Oak Terrace and Rice Heights. Twenty-eight arrests were made; 2 weapons, \$550 in cash, and drugs, including crack cocaine, heroin, powder cocaine, and marijuana were also seized.

## ***District of Columbia***

In **Washington, DC**, a “Priority City,” the Operation Reclaim Task Force targeted two adjacent public housing developments, Potomac Gardens and Hopkins Apartments, which were known to the Metropolitan Police Department (MPD) as the largest open air heroin and crack cocaine markets operating in the city. The operation, which ended on February 14, 1998, resulted in 37 arrests, 13 search warrants, and the seizure of \$9,260 in cash, 6 guns, 237 grams of crack cocaine, 204 grams of heroin, and 140 grams of marijuana.

Post enforcement efforts at these two sites include a satellite police sub-station opened by the D.C. Housing



Authority Police Department at Potomac Gardens, and a Family Investment Center which will assist residents with educational, family, and career related matters.

The High Intensity Drug Trafficking Area (HIDTA) Task Force executed search warrants and arrested four individuals in public and assisted housing developments, including a mid-level drug trafficker. The Task Force is made up of the FBI, ATF, OIG, MPD, and, because of their proximity, the Prince George's County and Maryland State Police Departments.

The Acting Chief, MPD, created for the first time a centralized city-wide "Gun Recovery Unit" (GRU) on January 5, 1998. The GRU is a hand selected unit assigned the high profile mission of combatting illegal guns and accompanying narcotics trafficking on the streets of DC. One of their special areas of enforcement focuses on HUD public and assisted housing developments city-wide. On January 4, 1998, the OIG made a Safe Home presentation to GRU managing officials, which resulted in an immediate invitation to join forces with them. OIG is the only federal law enforcement agency participating with the GRU. Since that time, OIG and GRU members have conducted enforcement activities including "stop and frisk," observation and surveillance, obtaining active intelligence from confidential informants, gun interdiction techniques, and other proactive efforts in areas with high incidences of gun related violence. As of March 31, 1998, those efforts had resulted in 25 arrests, 17 search warrants, and the seizure of 15 firearms and \$3,000 in cash.

Senior federal prosecutors from the U.S. Attorney's Office for the District of Columbia, Police Officers from the D.C. Housing Authority, HUD program staff and OIG Agents attended a Drug Enforcement and Maintenance Crime Reduction Program sponsored by HUD. Attorney General Reno highlighted the success of our efforts at the Montana Terrace public housing complex, which have achieved a 70 percent crime reduction rate and the near elimination of street drug dealing in the complex.

A workshop was held for residents of the Kelly Miller and LeDroit Park Apartments to discuss public safety services. Participants included the D.C. Housing Authority, the OIG, the Advisory Neighborhood Commission, and volunteer graduate students from Howard University. The workshop featured presentations on tasks accomplished by all parties involved in the post enforcement process. These efforts have remained a constant in the community since the OIG, ATF, and MPD disassembled the *LeDroit Park Crew* 3 years ago. Residents took the opportunity to thank those involved in helping to keep their community free of drugs and guns.

## ***Florida***

Phase I of the **Opa Locka** Operation Safe Home Task Force concluded with the arrest of 35 individuals for the sale of drugs at a Section 8 development. The Task Force, which consists of our office and the Opa Locka Police Department, previously arrested over 80 individuals for the sale of drugs at the development. The post enforcement phase was initiated with the opening of the Neighborhood Incentive and Enforcement Center (N.I.C.E.). The management agent donated the use of two apartments, one to be used as a domestic violence counseling center and the other as a classroom for the GED and after school mentoring programs. A representative from the OIG spoke at the opening ceremony and received a commendation from the Mayor for OIG support of the operation.

The Assistant Deputy Inspector General for Investigation was the keynote speaker at a town hall meeting in **Miami** for over 300 Dade County public housing residents. Other panelists included members of the city and county law enforcement agencies, the local housing authority, and HUD program staff. Our presentation included an overview of Operation Safe Home.

## ***Georgia***



In **Atlanta**, designated a “Priority City,” the Metropolitan Atlanta HIDTA Task Force, including OIG, focused its attention on violent crime and drug activity in or near such public housing developments as Jonesboro South, Bowen Homes and an area in the northwest sector of the city known as “the Bluff.” Results include the arrest of 21 individuals and the seizure of 2 weapons, 3 vehicles, over \$1,200 in cash, and quantities of crack, cocaine, methamphetamine, and marijuana.

In **Gainesville/Hall County**, the Organized Crime Drug Enforcement Task Force, including OIG, arrested four individuals, one of whom is associated with the *Brown Society Vats Hispanic* gang, which has sold methamphetamine to the same undercover agent on three separate occasions. Two of the federal arrest warrants were executed on individuals who distributed cocaine to residents of the RidgeCrest Apartments, a Section 8 development.

A fall festival, sponsored by the **Newnan** Housing Authority and OIG, was held as a follow-up to an Operation Safe Home effort that resulted in over 70 arrests. The festival was attended by community residents, the Coweta County Sheriff’s Department, the Mayor, DEA DARE Program personnel, the Newnan Police Department, and the OIG. The Authority sponsored a crime prevention seminar that included a cookout, basketball games, and anti-drug presentations. The Sheriff’s Department was presented an OIG award for its participation in the operation.

## ***Illinois***

A 3-day narcotics sweep, Phase I of operation CLEAN (Combined Law Enforcement Against Narcotics) by the **Ford Heights** Task Force, focused on the sale of narcotics in **Chicago Heights** and **Maywood**, and culminated in 71 arrests. Approximately 70 percent of the drug sales occurred within 1,000 feet of public housing complexes and a school. Additional efforts were focused on several other public housing developments located in Chicago Heights and Ford Heights. The overall effort resulted in over 245 arrests, with 33 vehicles impounded under local ordinances, along with the seizure of 3 weapons, over \$2,900 in cash, and more than 100 grams of cocaine.

Three separate task forces have been operational in **Chicago**, a “Priority City.” HIDTA, comprised of 17 federal, state and local agencies, arrested 5 individuals in Section 8 apartments on various drug charges. In separate efforts, the Chicago Housing Authority Police Department and OIG executed search warrants at the Rockwell Gardens and LaClaire Courts public housing developments that resulted in the arrest of 5 individuals on drug charges. In February, these two task forces joined forces in an effort to eliminate the narcotics dealings of the *Black Disciples* street gang at the Ogden Courts public housing development. Nineteen people were arrested.

## ***Indiana***

In **Gary**, a “Priority City,” the Northwest Indiana Violent Crime Task Force carried out several operations at the Delaney and Duneland public housing complexes that resulted in the arrest of seven individuals. Two weapons were seized as well as a small amount of crack cocaine. As a result of previous operations, three members of the *Vice Lords* street gang were convicted on various weapons and drug charges including distribution in and around public housing. In addition, two members of the *PFG* gang, a sub-unit of the *Gangster Disciples*, were sentenced to a total of 11 years in prison and 9 years probation. The Task Force is comprised of ATF, DEA, IRS, OIG, the Gary, Hammond, and Portage Police Departments, and the Lake County Sheriff’s Department.

## ***Kansas***

A task force in **Bonner Springs** was initiated after initial reports were confirmed that a Section 8 housing authority resident was distributing controlled substances from a federally subsidized unit. The investigation by the



DEA, OIG, Kansas Bureau of Investigation, and the Bonnor Springs and Kansas City Police Departments led to a drug supplier. OIG executed a state search warrant for the subsidized property with the support of the Kansas City SWAT team and the Narcotics Unit. Three weapons, over \$1,100 in cash, 3 pounds of marijuana, 2 grams of crack, and 4 ounces of methamphetamine were confiscated during the search. The resident was subsequently evicted under the “One Strike and You’re Out Policy.”

As a result of operations by the DEA, OIG, Topeka Police Department, Shawnee Sheriff’s Department, and the Kansas Bureau of Investigation in and around **Topeka** Housing Authority properties, 5 search warrants were executed and 21 arrests were made. Three Section 8 residents were ultimately evicted, and 2 others were barred indefinitely from all Authority properties. Six weapons, over \$3,000 in cash, and crack cocaine valued at approximately \$10,800 were confiscated during the searches.

## ***Kentucky***

Two separate task forces were operational in the **Louisville** area during this reporting period. The Jefferson County Safe Home Task Force, comprised of the Jefferson County Police Department and the OIG, focused on five separate areas in which there is a high concentration of Section 8 single and multifamily residences and public housing developments. The Louisville Safe Home Task Force, comprised of the DEA, OIG, and the Louisville Police Department, conducted operations at Section 8 units and at the Henry Greene Apartments, a HUD insured property. Combined, the operations at these two locations were responsible for the arrest of 176 individuals and the seizure of over 16 kilos of cocaine valued at approximately \$3 million.

Ronald G. Bersaglia, the former executive director of the Housing Authority of **Hazard**, and his wife, Lisa Campbell, were convicted in a conspiracy to illegally obtain controlled substances by misrepresentation, fraud, forgery, deception or subterfuge. The conviction resulted from their wrongful acquisition and possession of large quantities of prescription medications while they held positions of trust with the Housing Authority (Lisa Campbell replaced her husband as executive director when he left the position). They had both signed “Drug Free Workplace” certifications. Prior to the trial, the HUD State Office issued limited denials of participation against both individuals. This was a joint investigation by the FBI, OIG and the Kentucky State Police.

## ***Louisiana***

In **New Orleans**, a “Priority City,” a Task Force comprised of the ATF, DEA, OIG, USSS, USMS, New Orleans Police Department, and the Jefferson Parish Sheriff’s Department arrested 323 individuals on various drug related crimes — 145 from public housing developments and 178 from Section 8 areas of the city. During these operations, 32 weapons, over \$37,600 in cash, 1 residence, 6 vehicles, and over 2,200 grams of marijuana, cocaine, crack cocaine, and heroin were confiscated. In addition to the scattered Section 8 areas, operations occurred at the Fischer, St. Bernard, St. Thomas, Desire, Florida, Magnolia, Iberville, Melpomene, LaFitte, and Calliope public housing complexes.

Also in **New Orleans**, in conjunction with the Shelby County Sheriff’s Office and the FBI, OIG participated in the arrest of over 150 individuals and the seizure of 40 guns, over \$30,000 in cash, and large quantities of drugs. A state grand jury indicted 10 defendants for drug possession following a 6-month operation in two public housing complexes. When the task force conducted a city-wide “Zero Tolerance” operation that included a neighborhood adjoining 6 public housing and 8 Section 8 multifamily properties, 119 individuals were arrested on charges including narcotics, weapons, traffic, and juvenile offenses. Intelligence on various gangs operating in the areas was also gathered during the operation.





## ***Maryland***

Following surveillance and undercover activities by the Prince George's County Police Department and the OIG, eight drug dealers were arrested and two individuals were evicted from the Kimberly Gardens public housing complex in **Laurel**. Our Agents obtained two search warrants based on the seizure of abandoned property from units occupied by suspected drug traffickers. Three weapons and drugs were subsequently confiscated. Later, a post enforcement "kick-off" was sponsored by the OIG at Kimberly Gardens with the Prince George's County Housing and Community Development Department. At the kick-off ceremony, these new initiatives were announced: JUMP (Jobs and Upward Mobility Program); Reading is POWER (books were donated by Simon and Shuster); and a family Resource Academy with 10 donated personal computers and link-ups to Internet job sources. Sixty children and parents attended the drug education skit that taught children the repercussions of using drugs and alcohol.

Operation CLEAN (Citizens and Law Enforcement Against Narcotics), which targets drug dealers in the Kentland community of Prince George's County, a community that receives significant Section 8 subsidies, concluded with the execution of 3 search warrants, the arrest of 70 dealers and 21 buyers, and the seizure of 4 vehicles. During the operation, undercover OIG Agents and Police Officers made drug buys and used reverse drug buys in order to target individuals who were selling and purchasing narcotics. In addition, post enforcement eviction actions are being pursued under the "One Strike and You're Out" policy. The County Police Chief requested continued support in collaboration with the Department's CLEAN. We agreed to a long-term working partnership, to include identifying and assessing nearly 200 assisted and 8 public housing developments. This effort includes crime mapping, targeting specific sites on which to focus, and formulating strategies related to problems involving federally subsidized residents. Criminologists from the University of Maryland and HUD's Office of Policy Development and Research will also assist in the effort.

A presentation was given to the newly appointed **Rockville** City Housing Authority Executive Director and his staff concerning Operation Safe Home and fraud awareness following a request from the HUD Office of Public and Indian Housing program staff. They also requested that we consider initiating an operation in Rockville. As a result, we joined forces with the Montgomery County Police Department Municipal Drug Task Force/Tactical Drug Enforcement Unit. In one effort, over 2 pounds of cocaine valued at \$30,000, \$6,100 in cash, and 3 weapons were confiscated. A search warrant was also executed at the home of an individual responsible for drug trafficking in public and assisted housing communities. While searching the premises, OIG Agents and Montgomery County Police Officers also seized drug paraphernalia used to process cocaine into crack cocaine. Based on packaging addressed from Columbia, South America, it is suspected this seizure has international ties.

In a second operation with this task force, surveillance at a Section 8 assisted residence documented the receipt of 4 large drug parcels addressed to the residence, which resulted in the arrest of 2 individuals and the seizure of 83 pounds of marijuana. The packages were shipped from El Paso, TX, via Federal Express, which notified county detectives after determining the packages were suspicious. A controlled delivery was then planned during which an undercover detective acted as a Federal Express courier. Within minutes of the resident's taking receipt of the packages, another individual, identified as a runner, loaded the parcels into a vehicle. The vehicle was immediately intercepted and the driver apprehended.

OIG post enforcement efforts in Maryland included assisting in the holiday program "Adopt A Family," sponsored by the Department of Social Services in **Baltimore**. The HIDTA Task Force, including OIG, purchased presents and a holiday meal for two families on public assistance. Donations were made in person 2 days before Christmas; both families were surprised and grateful that law enforcement would take the time to remember them.

## ***Massachusetts***



In **Boston**, a “Priority City,” OIG Agents, in conjunction with the Boston Housing Authority Police, focused on the Alice Taylor, Mission Hill, and Lennox Street public housing developments. As a result of their investigations, one individual, who lived in a Section 8 subsidized apartment and was dealing drugs in public housing, was arrested. He had previously served time in federal prison on two separate occasions.

As a result of previous operations in **Boston**, three individuals were sentenced for their involvement in drug related crimes, and eight more were convicted. One operation involved two brothers who were responsible for distributing heroin in the Bunker Hill and Mishawum public housing developments. One brother received 7 years and the other received 15 years. The sentences exceeded the sentencing guidelines for the narcotics charges because of the brothers’ lengthy criminal records and the fact that DEA and OIG Agents were able to show historically that over 100 grams of heroin were sold during the drug conspiracy.

Of the eight individuals convicted for distribution of crack cocaine, five pled guilty and three were convicted after a week-long trial. The joint investigation by the FBI, OIG, Boston Housing Authority, and the Boston Police Department, which began in 1996 during drug purchases at the Lenox Street public housing development, was initiated to target an entrenched youth gang that used violence and intimidation to protect a lucrative drug market.

OIG Agents assisted the U.S. Customs Service in conducting search warrants at various locations, one of which was a Section 8 unit in Boston. The execution of these warrants followed a multi-agency money laundering and narcotics trafficking investigation of an organization operating in and around public housing in **Brockton** and **Boston**. In addition to 8 arrests, a lien was placed on real property and over \$60,000 in cash was confiscated.

The **Worcester** Task Force, comprised of the Worcester Police Department Gang Unit and the OIG, was operational in the Great Brook Valley and Lakeside Valley public housing developments during this reporting period. At Lakeside Valley, several of the individuals arrested were members of *The Bomb Squad*, a gang that was involved in home break-ins. In all, 25 individuals were arrested, and 3 weapons and approximately \$900 in cash were seized. Drugs confiscated included 83 bags of heroin valued at \$1,245, more than 4 pounds of marijuana, and several bags of psilocybin mushrooms. At the Great Brook Valley development, an individual who had defaulted on outstanding warrants for possession of heroin with intent to distribute was arrested.

In **Chelsea**, OIG Agents also assisted the U.S. Customs Service, Metro Dade Police Officers and the Massachusetts and New Hampshire State Police in conducting a reverse sting operation and executing a search warrant at a housing unit that borders Section 8 housing. In addition to 2 arrests and \$300,000 in cash that was seized, 40 kilos of cocaine with an approximate value of \$1 million were prevented from reaching the streets.

## ***Michigan***

Two different task forces were operational in the **Detroit** area, designated a “Priority City.” In **Ypsilanti**, 23 individuals were indicted on a variety of federal charges including murder and attempted murder, arson, witness tampering and drug related charges. They are members of the *Folks* and *Crips* street gangs and have been targeting public and assisted housing complexes in the area. Seventeen have been arrested to date. The Task Force includes the FBI, ATF, OIG, USMS, Michigan State Police, Ypsilanti Police Department, and the Washtenaw County Sheriff’s Department.

In **Taylor**, as a result of a 3-month investigation at the Woodbrook and Southland Apartments assisted housing complexes, seven search warrants and eight arrest warrants were executed. A weapon, \$2,000 in cash and some marijuana were seized. The Crack Ridge Task Force, which conducted this operation, is comprised of the ATF, OIG, and Taylor Police Department.



## ***Missouri***

In **Kansas City**, a “Priority City,” three individuals, including a Section 8 resident, were arrested on charges including possession with intent to distribute cocaine, after a search warrant was executed at a scattered Section 8 site by the Kansas City Police Department and the OIG. Four weapons, over \$5,000 in cash, 78 grams of crack and 68 grams of marijuana were seized. Suspected stolen property was also removed from the house.

The FBI Gang Task Force, comprised of the FBI, OIG, ATF, **St. Louis** County Special Enforcement Group, and the St. Louis City Police Department, targeted the Blumeyer public housing complex in North St. Louis where they conducted a buy/bust operation that culminated in three arrests and four search warrants. In another operation, one search warrant was executed on a Section 8 apartment that was a known drug trafficking location, and a second warrant was executed at a residence from which drugs were supplied to various assisted housing complexes. Two arrests were made in this operation. The occupant of the Section 8 unit was known to be heavily armed and dangerous.

With the cooperation with the St. Louis Housing Authority, the efforts of this Task Force have resulted in the eviction of over 30 individuals using the “One Strike and You’re Out” policy established by HUD. The majority of the cases involved narcotics and violent felonies.

The **St. Joseph** Operation Safe Home Task Force served a search warrant on a rural Missouri home and seized four working methamphetamine laboratories and over 40 pounds of methamphetamine with a street value of \$400,000. Two individuals were arrested and charged with manufacturing a controlled substance. The labs have been identified by the DEA as some of the largest seized in Missouri. The methamphetamine was being sold in and around the Oakridge Apartments, a subsidized Section 8 community. The Housing Authority of St. Joseph has an additional 75 to 80 Section 8 units surrounding Oakridge. This Task Force consists of the OIG,

Buchanan County Drug Strike Force, and the Buchanan County Prosecutor’s Office.

## ***Nebraska***

The **Omaha** Area Drug Task Force executed 4 search warrants following a 3-month investigation that began in an auto repair shop and expanded to housing and storage units. The repair shop was being used to arrange drug sales. One of the key distributors lived in a Section 8 apartment complex. Eight individuals were arrested, 4 were indicted, and \$35,000 in cash and drugs valued at more than \$90,000 were seized. The Task Force includes the FBI, INS, OIG, Omaha Police Department, and the Douglas County Sheriff’s Office.

## ***New Jersey***

The Westfield Acres and McGuire Gardens public housing developments were the focus of drug enforcement efforts in **Camden** during this reporting period. One operation utilized both mobile and fixed surveillance to maintain observation of several narcotics sales conducted by an individual known to traffic in illegal drugs. This individual was a resident and his arrest information was forwarded to the housing authority for “One Strike and You’re Out” policy enforcement. The overall initiative resulted in the arrest of seven individuals. Over 500 bags of crack cocaine, 9 bags of heroin, and 3 bags of marijuana were seized. In addition to OIG Special Agents, the DEA, USPS, Camden Police Department and the Bloucheater County Prosecutor’s Office were involved in these efforts.

## ***New York***

Efforts by the **Staten Island** Narcotics (SIN) Task Force in public housing developments continued during this



reporting period. For example, in a 2-phase operation, over 100 law enforcement officers participated in an initiative targeting members of the *Bloods* street gang. OIG debriefed team leaders and Police Officers about the gang and their key forms of identity prior to the actual operation. Phase one began with patrols and sweeps of the rooftops, hallways, stairwells, lobbies, basements and grounds of the West Brighton Plaza and Markham Gardens public housing developments. Phase two involved patrols, execution of bench warrants, issuance of summonses, the seizure of 7 vehicles, and the arrest of 42 individuals.

Another massive sweep, dubbed “Operation Devil’s Night,” was conducted at the Park Hill and Fox Hill assisted housing developments, and at the Stapleton, West Brighton Plaza, and Markham Gardens public housing developments. Bench warrants for fugitives and search warrants on previously identified drug locations were served, and raids and patrols, traffic checkpoints, and undercover drug enforcement activities were utilized. Guns and drugs were seized, and 55 individuals were arrested. The SIN Task Force, initiated by the OIG, is comprised of the New York City Police Department’s Organized Crime Control Bureau, the 120th Precinct, Housing Police Bureau, OIG, DEA, and USSS.

The Violent Crime Career Criminal Task Force in **Buffalo** executed 62 state felony arrest warrants following a 6-month undercover investigation that targeted the Lakeview, Redwood Village, Mariner Towers, and A.D. Price public housing developments. Eviction proceedings will be initiated, in accordance with the “One Strike and You’re Out” policy, against those who are residents of the developments. The Task Force, comprised of the FBI, OIG, INS, USSS, Erie County Sheriff’s Office, New York State Police, Buffalo and Amherst Police Departments, and the Buffalo Housing Authority, also executed five federal arrest warrants on individuals living in public and assisted housing, including the Jasper-Parish housing development, who were involved in the distribution of heroin on the east side of Buffalo.

Three arrest warrants were executed by the **Albany** Safe Home Task Force in Section 8 subsidized dwellings. One weapon and 76 bags of heroin were confiscated and 8 individuals were arrested, including one man who left his 17-month old twins sitting in a idling vehicle while he attempted to purchase heroin.

## **Ohio**

Enforcement operations in **Columbus** resulted in the arrest of 73 individuals on various drug related charges. Among those impacted were members of two gangs, the *GI Boys* and the *Windsor Terrace Posse*. In one operation, the 34 individuals arrested were allegedly part of a drug smuggling operation involving several southwestern states and were responsible for laundering over \$1 million and bringing more than 50 kilos of cocaine into public housing, particularly the Rosewind complex, in Central Ohio. More than 230 pounds of marijuana with a street value of \$265,000, 4 vehicles, and 2 weapons were seized. The cooperating agencies involved in these operations included DEA, IRS, USCS, USMS, ATF, OIG, Columbus Police Department, and the Ohio and New Jersey Highway Patrols.

Over 100 law enforcement officers in **Ironton** combined to arrest 25 individuals on various charges of drug possession and trafficking. In certain instances, food stamps were used to purchase drugs, including crack cocaine. The arrests are the result of a year-long undercover operation in and around the River Hills public housing complex. Agencies participating in the operation include DEA, HUD and Agriculture OIGs, USMS, and the Ohio Bureau of Criminal Identification and Investigation.

Other operations throughout the state included the service of a search warrant on a property owned by the Butler Metro Housing Authority in **Middletown**. Powder cocaine valued at \$25,000 and drug paraphernalia were seized by the USPS, OIG and Middletown Police Department.

The Central Ohio Drug Enforcement Task Force arrested nine individuals involved in selling illegal drugs in



publicly funded housing in **Sunbury** and **Newark**. The Task Force, comprised of the DEA, OIG, Columbus Police Department, and the Delaware Sheriff's Department, also seized four grenades.

## **Oklahoma**

Two operations in **Oklahoma City** during this reporting period netted 24 arrests and \$30,000 in cash. In conjunction with the U.S. Attorney's Office, one operation involved a round-up of suspects that targeted the Greystone public housing development. There were eight round-up teams with an OIG Agent assigned to each team. Greystone was selected for this operation due to its high concentration of violent gang related activity and numerous shootings, including several murders. In the second operation, three OIG Agents participated in executing a federal search warrant for illegal firearms and explosives at the residence of an individual who was believed to be a drug dealer. Because it was suspected that the residence contained hazardous materials, the individual was detained at his place of work while bomb technicians searched the residence. Street access was blocked by our Agents and radio communication was halted to ensure that a radio signal did not detonate any explosive device. Four weapons were found.

## **Oregon**

The "Operation Lightning" round-up has netted 37 arrests. This operation, which began in February 1998, is part of a Safe Home funding agreement between the **Portland** Police Department Drug and Vice Division and the OIG. The undercover drug operation focuses on street corner drug dealers in and around federally subsidized housing. In cooperation with the Multnomah County District Attorney's Office, 50 grand jury indictments have charged 34 adults with 128 separate felonies, 6 adults with misdemeanor charges, 10 juveniles with 31 felony counts, and 1 juvenile with a misdemeanor offense. The felony charges include distribution of a controlled substance within 1,000 feet of a school, distribution of a controlled substance, and possession of a controlled substance. In all cases, crack cocaine was the illegal drug of choice. Two of the 37 persons arrested were also charged with possession of crack cocaine with intent to sell.

## **Pennsylvania**

In **Philadelphia**, a "Priority City," the DEA, OIG and Philadelphia Police Department were responsible for two individuals being indicted by a federal grand jury following an undercover surveillance operation at the Southwark public housing development. One kilo of cocaine, valued at \$150,000, was seized. It was destined for area drug sellers and users located in and around the development.

Law enforcement operations took place in several other locations throughout the state with the following results:

Task Force		Results	
		Confiscated/ Action Taken	Arrests
<b>Chester</b>  DEA, OIG, Chester City Police Department	Search warrants, undercover operations and surveillance involving the William Penn, Bennett Homes, & Lamokin Village public housing developments. Evictions being coordinated with the Chester Housing Authority.	\$1,500 in cash, 1 weapon, cocaine, marijuana	18



		Results	
<b>Pittsburgh Task Force</b>  OIG, PA National Guard, Housing Authority Police	Search warrants, undercover operations and surveillance at Garfield Heights, Alequippa Terrace, Addison Terrace, Bedford Dwellings, Elmore Square & Arlington Heights public housing developments. National Guard provided high tech long-range surveillance for an open air drug deal.	Cash, 4 weapons, heroin, crack, marijuana	19
<b>Norristown</b>  OIG, Montgomery County Housing Authority	Section 8 residents involved in drug related activities.	Housing assistance terminated	2
<b>West Chester</b>  DEA, OIG, state and local police departments	Sting operation.	6 kilos of cocaine (valued at \$200,000). One guilty plea	5

## ***Rhode Island***

Ten members of the *Latin Kings* gang, who terrorized public housing developments, were sentenced to a total of 9 life sentences plus 120 years and 38 years plus 2 months in prison after being found guilty of charges including violations of the Racketeering Influenced Corrupt Organizations Act, conspiracy, murder, witness intimidation, firearms violations, and drug distribution. This resulted from “Operation Checkmate,” considered to be the single largest law enforcement operation in the history of the state. The Task Force included the FBI, ATF, DEA, INS, OIG, USSS, Rhode Island State Police, Department of Corrections, National Guard, and the **Providence** Police Department.

## ***South Carolina***

The **Spartanburg** Safe Home Task Force, comprised of the ATF, FBI, DEA, OIG, and the Spartanburg Public Safety Department, conducted several operations during this reporting period. Search warrants were executed and 61 individuals were arrested at several Section 8 properties and 8 public housing complexes. In addition, 25 weapons, over \$15,000 in cash, 462 grams of crack, 327 grams of marijuana, and 3 grams of heroin were confiscated.

## ***Tennessee***

Five defendants, previously arrested on charges of narcotics distribution in publicly funded housing in **Huntington**, stood trial as a result of the Operation Safe Home effort in Carroll County conducted by the OIG, Carroll County Sheriff’s Department, and Huntington Police Department. Of the five, one was found not guilty and four were found guilty of possession with intent to distribute crack cocaine in public housing. The imposed fines



totalled approximately \$450,000.

In conjunction with the Shelby County Sheriff's Office and the FBI, numerous tactical operations were executed during this reporting period in **Memphis**, a "Priority City." Over 150 individuals were arrested, 40 guns and over \$30,000 in cash were seized, and large quantities of drugs were confiscated. Of the 150, 119 were arrested when a task force conducted a city-wide "Zero Tolerance" operation that included a neighborhood adjoining 6 public housing and 8 Section 8 multifamily properties. The individuals were arrested on charges including narcotics, weapons, traffic, and juvenile offenses. Intelligence on various gangs operating in the areas was also gathered during the operation.

The effects of previous operations were felt in several jurisdictions in the 24th Judicial District. As a result of an Operation Safe Home round-up conducted earlier this year in **Savannah**, 31 individuals pled guilty to possession and sale of crack in public housing. Only three individuals will go to trial as a result of the pleas.

In **Paris**, a search warrant was executed at a private residence after it was reported that an individual had received 2 ounces of cocaine. The majority of the cocaine was being sold in 1-gram packets for \$100 per packet within the local public housing development. One individual was arrested and 35 grams cocaine and 10 grams of marijuana were seized.

A 6-month undercover operation focused on the Tranquility Apartments and Sunrise Apartments, two HUD insured/subsidized developments in **Camden**. Thirty-one individuals were indicted after Agents purchased cocaine, marijuana and chemical substances from residents and individuals as far away as Big Sandy in the northern part of Benton County.

A 10-day undercover operation in **Trezevant** resulted in a search warrant being executed at a private residence. A husband and wife were identified as the major source of methamphetamine in two areas of the state. Coordination with the Metro Narcotics Office of the Jackson Police Department revealed that most of the methamphetamine was sold in both public and assisted housing complexes. These joint operations were conducted by the 24th Judicial District Drug Task Force, OIG, Savannah and Jackson Police Departments, Benton and Carroll County Sheriff's Offices, and the State Highway Patrol.

The 27th Judicial District Drug Task Force executed 15 arrest warrants that included individuals living in the **Martin** Housing Authority following a 6-month operation. In a dawn round-up in **Union City** that covered a 10-block area of 3 public housing developments, 27 individuals were arrested. A weapon, marijuana, crack cocaine, 4 vehicles, and stolen property were seized. This was a joint investigation conducted by the 27th Judicial District Drug Task Force, Tennessee Highway Patrol, the Weakly County Sheriff's Office and the OIG.

## ***Texas***

Eight public housing and four Section 8 residents were arrested by the EGGHOUSE (Eliminate Gangs and Guns from Public Housing) Task Force in **Dallas**. One of the public housing residents was arrested on an outstanding murder warrant, was found guilty, and was sentenced to 6 years in prison. Another of the individuals, who was arrested for possession of a firearm, has close ties with the *Tray Overton* gang, which is connected to the *Highland Hills Posse*. The *Highland Hills Posse* is believed to be involved in drug trafficking in the Highland Hills Section 8 community and the Estelle Village public housing development. Assistance to one of the residents was immediately terminated; two other residents voluntarily vacated their units.

The **Dallas** Gang Task Force was responsible for the arrest of 105 individuals and the seizure of 20 weapons, over \$100,000 in cash, and drugs including crack, marijuana, and methamphetamine. The largest operation involved a sweep that began in September 1997 and covered a variety of public and assisted housing areas. Eighty-four covert drug buys and 12 search warrants were involved in the arrest of 92 individuals. The targeted areas included



the Little Mexico, Cedar Springs, Shadowbrook North Condominiums, Rhoads Terrace, Turner Courts, and Estelle Village, all public housing developments, and several scattered Section 8 sites throughout the city. In addition to the Dallas Police Department and our office, the Balch Springs Police Department assisted in at least one of these operations.

The **Fort Worth** Safe Home Task Force, composed of OIG and the Fort Worth Police Department, obtained an indictment of a former resident of the Butler Place public housing development. The resident, who had made numerous statements to a local newspaper about drugs and improving conditions at the development, was co-founder of the M.O.B. (Men of Butler Place) and stated that their mission was to assist children growing up in the development and encourage them to resist drugs and gangs. However, the former resident had sold drugs to undercover officers on more than one occasion. OIG presented the Police Chief and three Officers with plaques for their commitment to and involvement in these operations, which have reduced violent crime in public housing developments by 25 percent.

OIG personnel participated in a parade celebrating law enforcement's accomplishments in **Houston's** war against crime. Over 243 vehicles were in the parade, along with a float and children from the housing authority. Metal signs on the HUD vehicles depicted the Operation Safe Home logo, while children wore T-shirts celebrating Safe Home accomplishments.

## ***Utah***

Three search warrants were executed by the Salt Lake County Sheriff's Office and OIG at the Solar Complex, a public housing development in **Salt Lake City**. The seven individuals who were arrested were either residents of the complex or documented sources of narcotics flowing into the complex. Nine grams of methamphetamine, 12 pounds of marijuana, and 113 grams of cocaine were confiscated during this operation.

## ***Virginia***

Operation Safe Home activities in the northern sector of the state are reflected on the following table:

Task Force	Activity	Results	
		Confiscated/ Action Taken	Arrests
<b><i>Fairfax County</i></b> OIG, Fairfax County Police Department Street Crimes Unit	Undercover street level enforcement operations centered around several Section 8 developments.		13
<b><i>Alexandria</i></b> OIG, Alexandria Police Department Street Crimes Unit	Search warrants, surveillance and street level enforcement activities at both public and assisted housing.	\$2,500 in cash, 32 grams crack, 21 grams marijuana	31





Task Force	Activity	Results	
		Confiscated/ Action Taken	Arrests
<b>Leesburg</b>  OIG, Leesburg Police Department, VA State Police	Undercover operations in assisted housing complexes, including the purchase of a large quantity of crack cocaine.		18
<b>Manassas</b>  OIG, Prince William County & Manassas Police Departments	OIG undercover and surveillance operations and post enforcement efforts in and around Coverstone IV assisted housing development.  Operation Gatekeeper: Simultaneous arrest warrants executed. Target area: Section 8 communities of Iron Gate & West Gate Apartments.  A 2-month period of OIG funded “zero tolerance” uniform police overtime at Coverstone IV resulted in another 106 arrests made for drugs, weapons, and other criminal offenses.	\$6,100 in cash, 1 vehicle, marijuana, crack cocaine	20

Presentations on Operation Safe Home and program fraud awareness were made to the newly appointed Executive Director of the **Alexandria** Redevelopment and Housing Authority. OIG staff were given a tour of affordable housing communities for low-income residents in the city. We have forged a model partnership consistent with Operation Safe Home in establishing community anti-crime initiatives.

Post enforcement efforts in **Manassas** included two holiday parties at the Coverstone IV Apartments. Approximately 50 children attended a Halloween costume party. Gifts and refreshments were provided for the 65 children who attended the Christmas party.

## **Washington**

Buy/bust operations, search warrants, neighborhood patrols and knock and talk operations during this reporting period resulted in the arrest of 34 individuals and the seizure of 6 weapons, cash, and quantities of cocaine, marijuana, and heroin. Most of the arrests were made by the **Seattle** Police Department as follow-up to previous task force efforts. Our Agents are pursuing eviction for those individuals arrested who are also public or assisted housing residents. In addition, an OIG Agent is participating in a weekly Youth Tutoring Program at a public housing complex as a proactive component of Safe Home efforts. The students are residents who are considered “at risk.”

A 2-day conference was held in **Seattle** and at the **Puyallup** Reservation as part of our Operation Safe Home efforts. The conference was one of three regional conferences convened by the Administrator of HUD’s Eastern Woodlands Office of Native American Programs to examine Operation Safe Home strategies for addressing violent crime in Indian housing.



In **Everett**, 3 Section 8 residents were evicted during this reporting period, bringing the total evictions of residents with violent crime involvement to 10. Continued efforts by the Everett Police Department and OIG resulted in eight new arrests.

The Tri-Cities Metro Drug Task Force was responsible for the arrest of four individuals and the seizure of four weapons and drugs. At one Section 8 unit where cocaine was purchased from a resident's guest, the resident was identified as a known affiliate of the *Compton, CA Crips* gang. Because of living conditions at that unit, housing inspectors were alerted. This Task Force is made up of OIG and Officers from Benton and Franklin Counties, including the tri-city areas of Pasco, Kennewick, and Richland.

Information collected during an initiative in **Tacoma** prompted an aggressive effort by the OIG and the Tacoma Police Department to require an apartment complex owner to make needed management changes and property improvements that would help rid the project of crime and drug problems. At a meeting with the owner, also attended by HUD program staff, a Tacoma Human Rights Department official, and a city attorney, the owner was advised that corrective actions were needed to bring the property within city standards or the city would begin seizure proceedings through the abatement process. HUD staff advised the owner that he had 30 days to turn over management to a capable management agent, his progress would be monitored by the Police Department, and the city will continue to ensure future compliance with local ordinances.

## Witness Relocation

Efforts to improve and expand our Witness Relocation Program have been underway in conjunction with the DOJ. A workshop was held that included the U.S. Attorney's Office, OIG, and the DC Housing Authority. The DC Program has been the most active in the country, and federal prosecutors have requested that it be expanded because of its success in the resulting criminal convictions for violent crimes committed in public and assisted housing communities. At the request of Attorney General Reno, we met with the DOJ to outline more complete steps to deal with witness relocation and intimidation. It was decided that DOJ will lead a working group composed of our office, other federal law enforcement agencies, and relevant components of the DOJ to evaluate existing programs and make suggestions for improvements. The DOJ has made positive, constructive comments about our contributions and participation in these issues.

During this reporting period, 69 witnesses to violent crimes were relocated. Since inception of this program, we have relocated over 434 witnesses and their families. Since the initiation of Operation Safe Home in 1994, OIG has focused significant resources and priorities on detecting and prosecuting fraud in the administration of HUD's Public Housing Programs. These concentrated audit and investigative initiatives have resulted in the identification of over 200 criminal cases with 121 indictments, 100 convictions, and over \$2.2 million in fines and recoveries to date.

## Fraud in Public and Indian Housing Administration

In addition to the adjudicated cases and current investigations in process, OIG has identified numerous wasteful public housing agency (PHA) practices and areas of vulnerability. Since 1994, over 165 audit reports have been issued on local PHA operations, with over \$40 million in questioned and unsupported costs. In another proactive effort, OIG issued a publication entitled *Guidelines for Public Housing Authorities to Prevent, Detect and Report Fraud*, which was distributed to every PHA in the country. Many PHAs found this guidance extremely useful in establishing their own fraud prevention programs.



The results of this Operation Safe Home element have reaffirmed the benefits of proactive rather than strictly reactive fraud abatement and the value of concentrated audit and investigative initiatives. Consequently, OIG plans to relax the Safe Home priority of concentrating solely on fraud in the administration of public housing and expand proactive fraud efforts to all HUD funded programs.

The following reflects the work that was accomplished relating to fraud in Public Housing Program administration during this reporting period and since the inception of Operation Safe Home:

## Summary of Results

Activity	Current Reporting Period	Cumulative to Date
Indictments	6	121
Plea Agreements/Convictions	9	103
Sentences Imposed		
Jail	115 months	1,062 months
Probation	287 months	2,294 months
Fines/Restitution	\$552,833	\$2,203,504

### California

Christine Walter, the former Chemehuevi Indian tribal chairperson, and her daughter Patricia Mardis, the former tribal secretary-treasurer, were convicted of conspiracy and embezzlement in **Havasu Lake**. Each was sentenced to 27 months in prison and 3 years probation. In addition, Mardis was ordered to pay \$180,000 in restitution. This is the amount they embezzled by charging personal expenses to tribal credit cards and cashing tribal checks. This conviction resulted from a joint investigation by the OIGs from the Department of Interior and HUD, the FBI and the San Bernardino County Sheriff's Department.

### Georgia

Three employees of the **Sylvester** Housing Authority, including the former executive director and administrative assistant, were indicted for embezzling over \$55,000 from resident rent receipts. The investigation was conducted by the OIG Office of Investigation following a referral by the OIG Office of Audit.

### Kentucky

As a result of an investigation by the OIG and Lee County Sheriff's Department, Jack Bray, the former executive director of the **Beattyville** Housing Authority, pled guilty to embezzling over \$25,000 from the Authority. The funds have been recovered through a claim against the bonding company that provides services to the Authority.

### Louisiana

The deputy executive director of the **East Baton Rouge** Housing Authority was sentenced to 3 years probation, 3 months in a halfway house, 3 months home detention, fined \$100, and ordered to pay over \$24,900 in restitution.



Patricia Alexander diverted over 135 money orders paid by residents as their portion of rents by making the money orders payable to herself rather than depositing them in the Authority's account. This was a joint investigation by the FBI, OIG, and Louisiana State Police.

## ***Maryland***

The former chief of disbursements at the **Baltimore** City Housing Authority and a friend pled guilty to embezzling approximately \$142,000 over a 2-year period. Doretha McFadden obtained more than 60 blank Housing Authority checks and issued them to herself or to Willie Joe Spann, a personal friend who was not employed by the Authority. Both individuals cashed the checks or deposited them in their personal bank accounts and used the money for household bills, entertainment, and other personal expenses, including drugs. This was a joint investigation by the FBI and the OIG Offices of Audit and Investigation.

Dorothy Budd, the former manager of a **West Baltimore** housing cooperative, pled guilty to accepting \$22,500 in bribes from prospective residents looking to circumvent the waiting lists for subsidized apartments. Budd admitted accepting bribes from at least 15 people since 1993 and moving them up on the waiting list. During this FBI/OIG investigation, an undercover agent posed as an applicant, paid a bribe to Budd, and was then offered a unit within a few months. Sentencing is scheduled for late May.

## ***Minnesota***

As a result of an OIG investigation, Daniel Pexa, the former executive director of the **Montgomery** Housing and Redevelopment Authority, pled guilty to stealing over \$14,000 in rental receipts from the Authority. He was sentenced to 4 months work release, 4 months home detention, and 3 years probation. He was also fined \$2,000, assessed \$100, and ordered to pay over \$14,000 in restitution.

## ***Missouri***

The former executive director of the **Hayti Heights** Housing Authority was sentenced to 10 months in prison and 2 years probation and ordered to make full restitution following an investigation by the OIG Offices of Audit and Investigation. Janice Hall pled guilty to two counts of embezzlement. She submitted fraudulent invoices in order to pay over \$7,500 to herself or the Authority to cover the monies she had taken earlier.

## ***Montana***

In Great Falls, a 17-count indictment was issued against a construction company, its owner, members of an Indian tribal business council, and a former HUD official, alleging bribery, fraud, and misuse of \$5.5 million in HUD funding. The indictment charges conspiracy to circumvent eligibility standards and the ranking process for approving HOME grant funds in 1992 and 1993. It also charges that some business council members accepted bribes from the construction company, some in the form of jobs and houses for family members. This was in exchange for political support and the release of HUD funds to reimburse them for work that had not been done. Much of the work that was funded was not completed when the money ran out. In addition, several counts of the indictment charge tribal members, the construction company, and its owner with conspiracy to defraud a mortgage lender.

HUD has informed the 13 entities (11 people and 2 businesses) that they are suspended from participating in programs with HUD and throughout the Executive Branch of the Federal Government pending further proceedings. The investigation leading to this indictment was a joint effort by the OIG Offices of Audit and Investigation and the U.S. Attorney.



## *Oklahoma*

After pleading guilty to one count of mail fraud, Jim Drake, the former executive director of the **Shawnee** Housing Authority, was sentenced to 12 months and 1 day in prison, 3 years probation, and 100 hours of community service, and ordered to pay \$40,000 in restitution. A joint FBI/OIG investigation disclosed that Drake engaged in a scheme to conceal receipts of Authority funds by cashing checks and converting them for his personal use. The U.S. mail was used when royalty checks from gas leases on Authority property were redirected.

## *Virginia*

A limited review by the OIG Office of Audit of the **Fairfax County** Department of Housing and Community Development's Section 8 Program disclosed that an employee diverted program income for personal use. The employee created fictitious owners and residents in the computer system and general ledger in order to divert over \$77,000 in program funds, but did not create resident folders. Her supervisor uncovered her scheme when she found a ledger sheet on the floor and, worried that the rental property owner would not receive payment, requested the resident folder for the person listed on the ledger sheet. When the folder could not be found, additional reviews found that there were no files for any of the other residents listed for a particular vendor. The employee pled guilty and agreed to repay the embezzled funds. (Report No. 98-AO-203-1801)

## *Wisconsin*

The executive director of the **St. Croix** Chippewa Housing Authority was indicted for diverting over \$50,000 in public housing assistance funds. She accomplished this by issuing checks to fictitious landlords, cashing the checks and converting them to money orders, and then using the money for her own benefit. This was a joint investigation by the Department of Interior and HUD OIGs.

# Equity Skimming in FHA Insured Multifamily Housing

Equity skimming is the illegal use of any part of the rents, assets, proceeds, income or other funds derived from an FHA insured multifamily property for purposes other than to meet actual or necessary expenses. When owners do not pay their mortgages, in addition to the financial losses incurred, the living conditions in the developments generally deteriorate because the funds intended to maintain the individual units and common areas are diverted for unauthorized uses.

Under Operation Safe Home, we have expanded both civil and criminal enforcement opportunities and have streamlined referrals of civil cases to the U.S. Attorneys for prosecution. This has helped speed up the resolution of those cases where we have found that equity skimming exists.

The following reflects the work that was accomplished during this reporting period and since the inception of Operation Safe Home:

## Summary of Results

March 31, 1998



Current Reporting Period		
Type of Enforcement Activity	Cases	Repayments Required
Settlements	11	\$11,000,000
Court Judgments	2	\$2,000,000
Criminal Convictions	4	\$940,000

Cumulative Activity		
Type of Enforcement Activity	Cases	Repayments Required
Settlements	94	\$66,000,000
Court Judgments	14	\$13,300,000
Criminal Convictions	21	\$3,700,000

## California

In **San Francisco**, Rosemary Vazquez Otero, the on-site manager of Vicentina Villa Apartments, pled guilty to theft of program funds after she converted over \$72,000 in rent payments for her personal benefit. She was sentenced to 10 months of electronic monitoring home detention, 3 years probation, and 150 hours of community service, and ordered to pay \$73,000 in restitution. This was an OIG investigation.

Insufficient oversight by the Villa San Carlos Garden Apartments (VSC) board of directors and poor management practices by the management agent, Creative Property Management, were the cause of more than \$302,000 in unnecessary and unsupported costs found during our audit of VSC. The impact on both the complex and the residents was evidenced by the deferred maintenance and cash deficiencies that resulted. For example, the level of deferred maintenance more than doubled to over \$1 million. We are pursuing repayment of the misused project assets. (Report No. 98-SF-212-1001)

The owners of the Redwood Villa multifamily project in **Mountain View** improperly spent over \$330,000 for non-project uses. An OIG audit disclosed that these payments consisted of personal expenses of two stockholders, excessive compensation paid to two stockholders and a stockholder's spouse for managing the project, expenses of an affiliate company, repayment of a stockholder's advances, payments on a stockholder's personal loan, and salary advances to a stockholder. None of these expenditures were reasonable operating expenses. During the time the funds were spent, necessary repairs were not made and the project was in a non-surplus cash position. OIG is pursuing recovery of the misspent funds. (Report No. 98-SF-212-1002)

## Connecticut

Two equity skimming cases were settled that evolved from OIG reviews of annual audited financial statements. In **New Haven**, the owner of a 176-unit project signed a consent judgment and agreed to a judgment of \$400,000. In addition, he was debarred from doing business with the government for 3 years. During a review of the annual



audited financial statements of the **Briarwood Hill** Apartments, we identified violations that included distributions while the project was in a non-surplus cash position and an unauthorized mortgage on the property.

During a review of annual audited financial statements of four properties in **Danbury** owned and managed by BRT General Corporation, we found owner distributions while the properties were in a non-surplus cash position and underfunded security deposits. The HUD State Office finalized a settlement whereby the owner fully funded both the cash deficit and the security deposit account. The four projects involved were Spring Ridge, Grassy Plain Estates, Mountain View Estates, and Park Ridge South.

In **Broad Brook**, a civil complaint was filed by the U.S. Attorney's Office against the owners, managers and affiliates of the Mill Pond Village Apartments, alleging diversion of project assets totaling over \$2 million and payment of more than \$150,000 in legal fees which were not related to project operations. The complaint seeks restitution of twice the amount of funds plus interest, costs including attorney and auditing fees, and a constructive trust on all project assets and all other assets acquired with funds improperly obtained. The complaint resulted from a referral made by OIG and HUD's Office of General Counsel and was based on an OIG review.

## ***Florida***

In the review of the 183<sup>rd</sup> Street Apartments in **Miami**, we found Regulatory Agreement violations including improper use of rental space, overpaid management fees and fees paid prior to rent collections, and inadequate fidelity bond coverage. Our review of the Bethel Community Heights Apartments in **St. Petersburg** found the management agent, Searchwell Thorne and Associates, paid themselves over \$120,000 in oversight fees to which they were not entitled. Other Regulatory Agreement violations included misuse of rental space, overpayment of management fees, use of security deposits to fund operating deficits, and inadequate fidelity bond coverage. In both audits, we are pursuing corrective action. (Report Nos. 98-AT-211-1803 and 98-AT-211-1801)

## ***Illinois***

In a settlement negotiated by the U.S. Attorney, the owner of Dearborn Place Apartments in **Chicago** remitted \$1.4 million to HUD, representing \$1,386,000 in program funds and \$34,500 in audit costs. An OIG audit disclosed that the owner improperly used operating funds to make bank loan payments while the project was in default, incurred ineligible and unsupported expenditures, and failed to remit monthly cash payments to HUD on a second mortgage. (Report No. 98-CH-211-1802)

Two findings involving improperly disbursed funds were cited during our audit of the Sheridan Plaza Apartments in **Chicago**. One finding addressed the improper payment of the salary of the owner of the complex. The second finding disclosed the payment of legal fees that were unrelated to project operations. The owner agreed to pay the amount identified in the audit finding and the cost of the audit, which totaled over \$92,000, plus interest. (Report No. 98-CH-211-1806)

## ***Indiana***

In **Indianapolis**, the fourth general partner of Woodbrook Associates was ordered to pay HUD over \$134,000 plus interest, attorney's fees and costs related to litigation following a civil complaint filed in federal district court. The equity skimming by the partners included improperly expended funds, payments to related parties, bankruptcy related expenses of the partnership, secretarial service expenses, and travel expenses. This was an OIG investigation.

A civil complaint was filed against the sole general partner of a partnership that owned a property in



**Indianapolis** that was operated as a nursing home facility. The complaint seeks over \$700,000 under the double damages provision of the equity skimming statute. Our investigation disclosed that payments made to a lessee were not deposited into project funds as required under the Regulatory Agreement. As a result of the partnership's failure to make mortgage payments, the project defaulted on the FHA insured loan.

## ***Kentucky***

In **Louisville**, Jeanette Franck, a property manager, was sentenced to 18 months in prison and 3 years probation and ordered to pay over \$200,000 in restitution after being found guilty of theft and misapplication of property belonging to Colonial Square Cooperative, Inc. She wrote checks to buy a house, home furnishings, and several vehicles, and to pay for work done at her home by contractors. This was a joint investigation by the FBI and OIG.

As a result of an investigation conducted by our office, the former management agent for the Henry Green Apartments in **Louisville** was indicted by a federal grand jury for allegedly embezzling over \$70,000 in program funds. The funds should have been used to make the needed repairs at the development.

## ***Massachusetts***

An indictment was brought against the former on-site manager of a Section 8 development known as the Marcus Garvey Apartment in **Boston**. An investigation, conducted by the FBI, IRS, and OIG, revealed that the former manager allegedly took over \$193,000 in program funds and converted them to his own use.

Final payment was received from the owner of Marian Gardens in **Lynn**. A 1994 OIG audit determined that the owner diverted project funds while the project was in a non-surplus cash position. A settlement was reached in 1995 that required him to pay HUD \$210,000, with the final payment due in September 1997. Because he failed to make the final payment on time, the U.S. Attorney allocated an additional interest charge, resulting in the collection of another \$11,650.

## ***Michigan***

Our audit of 4 of the 15 multifamily properties managed by Highland Management Company included Canton Commons, LeForge Villa, Pickwick Park and Garfield Court in **Southfield**. We found that the overhead rate paid to an identity-of-interest construction company exceeded the standard industry rate by 78 percent, and that the management agent had no documentation to support its calculations. We also found that of the four complexes, only Garfield Courts was maintained in a satisfactory physical condition. Canton Commons, LeForge Villa and Pickwick Park each needed over \$1 million in repairs. As a result of the audit, the owners paid off the HUD insured mortgages of Garfield and Pickwick Park. The management agent completed an escrow agreement for Canton Common and LeForge Villa by placing over \$84,000 into an escrow account for repairs. This account contains restrictive provisions for disbursement that require HUD's written approval for use. (Report No. 98-CH-211-1801)

## ***New York***

The owners of BRACO I Partnership in **Buffalo** spent over \$478,000 to establish life insurance and pension plans for their employees. We determined that 97 percent of the costs were excessive and unreasonable and therefore ineligible. We also found that the owners transferred over \$140,000 of project funds to an investment account to establish a trust fund. The purpose of the fund was to earn money to eventually pay a \$300,000 residual receipt note executed with HUD when the owners received a flexible subsidy loan. However, the owners failed to





obtain HUD approval to establish the trust fund, as required by the Regulatory Agreement. We are pursuing recovery of the \$478,000. (Report No. 98-NY-214-1001)

The partners and employees of a realty management firm in **Brooklyn** were arrested and indicted, and pled not guilty in a \$10.8 million multifamily equity skimming investigation. The defendants allegedly took money from eight HUD insured, low-income assisted housing developments for their own use and embezzled Section 8 housing assistance payments made by HUD to these developments. Between 1990 and 1997, the developments received over \$52 million in HUD funds. The developments were in a non-surplus cash position at the time of the diversions and subsequently fell into poor condition. This was a joint investigation with the FBI, the Department of Labor and HUD OIGs.

Sandra Lopez, the bookkeeper of a management agent in **New York** pled guilty to embezzlement and conspiracy to defraud the United States, and two former employees, a husband and wife team, were arrested at their residence by OIG Agents. A joint investigation with the FBI disclosed the disappearance of funds from the operating accounts at the Grand Street Housing Guild and Thessalonica Court assisted housing developments. Three employees of the management company and their spouses created false invoices and had checks issued to themselves. The checks were then deposited in their personal bank accounts and the money withdrawn. When the checks were returned to the management company's main office, they were altered to reflect false payments to vendors and contractors. To date, six individuals have been arrested for fraud and embezzlement at the Grand Street development.

## ***Pennsylvania***

Edward Laguna, the former treasurer of a federally insured elderly housing project in **Philadelphia**, known as Lutheran Knolls, was sentenced to 21 months in prison and 3 years probation, ordered to repay \$18,500 to two of his tax clients and over \$46,000 to the developments. Laguna stole development funds to cover up embezzlements exceeding \$113,000 from private clients for whom he worked as a tax preparer and financial advisor. Working together, our Offices of Audit and Investigation and the FBI uncovered the gradual and steady increase in the treasurer's salary without approval of the owners or management agent. Laguna covered the increases by falsifying both internal reports and tax information required to be filed with the IRS.

## ***Puerto Rico***

In **San Juan**, the owner of a HUD insured hospital and his wife were indicted after a joint investigation by the FBI and the OIG Offices of Audit and Investigation uncovered the diversion of \$5 million from the hospital. The owner used the money to make cash payments and no interest loans to himself, pay insurance premiums for both himself and his wife, and pay personal expenses, including three personal luxury vehicles. The original mortgage was \$8.7 million and the owner has not made a principal mortgage payment since he took over the property in 1991. Ownership of the property was transferred to HUD in 1996 and the amount now owed to HUD is over \$18 million.

## ***South Carolina***

Final payment of \$2.5 million was received from the Insignia Management Group, a limited partnership in **Greenville**, resulting from an OIG audit that found Insignia provided and/or received kickbacks and rebates on HUD insured housing. They entered into the agreement in 1997 to avoid being named in a civil complaint filed against three people and entities owned by these individuals. The complaint alleged that Insignia and the individuals entered into a kickback scheme in which Insignia agreed to pay the individuals a percentage of its earned management fees for an exclusive contract to manage their properties. This enabled them to circumvent regulatory restrictions on cash



distribution from the properties.

## ***Tennessee***

Robert Lee Willey, the former management agent of four developments in **Nashville**, and his wife, Sherry Pedigo Willey, pled guilty to tax evasion for failing to report over \$2.3 million in income. They acquired this income by diverting funds from the developments and not making any mortgage payments from September 1987 to March 1992. The mortgages on the properties totaled over \$19 million but upon foreclosure, they were sold at a \$10 million loss to HUD. Following an OIG audit, a joint investigation conducted by our Office and the IRS resulted in the referral of the case to the U.S. Attorney's Office. Three civil summary judgments were obtained against the defendants totaling over \$10 million, which was double the amount of the funds that were actually diverted from the properties.

## ***Texas***

The owner of a retirement complex in **McAllen** is facing a \$3.1 million lawsuit for allegedly misusing government funds. The suit, which arose from her ownership of several companies involved in nursing homes and housing construction, claims that she misused a HUD insured loan. No mortgage payments have been made since 1992 and the company has defaulted on the loan. Our review of company ledgers and canceled checks revealed that after the company defaulted on the mortgage, more than \$1 million was paid to the owner's related entities.

Over \$1.4 million in restitution is part of a global settlement of criminal and civil issues entered into as a result of our investigation into equity skimming in **Houston**. A Federal District Judge accepted guilty pleas from two corporations that managed several multifamily properties with HUD insured or HUD held mortgages. The owners personally and on behalf of the two corporations entered into a civil judgment to repay HUD the \$1.4 million in expenditures OIG found to be in violation of the HUD Regulatory Agreement and \$82,000 in program funds that were used to purchase materials improperly used at the owner's private residence and at one of his other five businesses. This was a joint effort by the OIG Offices of Audit and Investigation.

The former general partner of The Village of Kaufman, Inc., has been receiving Section 8 funding since 1985. In 1991, HUD notified the owners that rents could be adjusted retroactively, making them eligible to receive a retroactive one-time payment. A HUD loan servicer reported that the general partner was using project funds for private purposes, but he always repaid them before their annual audit. Although the partner was told to stop, he did not. After receiving the retroactive payment of more than \$500,000, the general partner made withdrawals of over \$1 million and failed to generate an audited financial statement. The partner and the management company were removed from the development. Based on our investigation, a Grand Jury in **Dallas** returned an indictment against the general partner.

## ***Virginia***

An OIG audit of the Caru and Caru East Apartments in **Roanoke** found over \$450,000 in ineligible and unsupported expenses. In addition, despite physical inspections from 1993 to 1996 that indicated serious maintenance problems at both projects, improper cash distributions were made by the owners. The result of both these actions was the unavailability of funds needed to operate and maintain the two apartment complexes. The OIG is pursuing recovery of the funds. (Report No. 98-PH-212-1001)

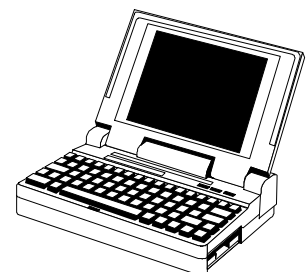


# Audits

In addition to evaluating HUD's management reform issues, conducting activities in support of Operation Safe Home, and reviewing regulations and legislative proposals, the OIG's Office of Audit continued to monitor HUD programs and operations through audits. During this reporting period, the Office of Audit issued 9 reports and 4 audit-related memoranda on internal HUD operations, and 36 reports and 26 audit-related memoranda on grantees and program participants. (See Appendix 1 for a listing of the audit reports issued.) Cash recoveries amounted to \$19.4 million, with another \$36 million in commitments to recover funds.

Some of the more significant audit results during this period include the following:

- HUD's Office of Native American Programs did not fulfill its oversight responsibilities to ensure that Indian housing authorities provided housing consistent with program intent and rules for 20 of 29 instances reported in *The Seattle Times*.
- HUD awarded \$381 million of Fiscal Year 1996 HOPE VI funds to 37 ineligible applicants.
- A housing authority failed to implement adequate accounting and managerial controls over the Public Housing Drug Elimination Program. Over \$935,800 in reported costs could not be supported.
- Lenders in one state used the same consultant/inspector for most of their loans, and the consultant/inspector did not perform proper inspections of Section 203(k) Rehabilitation Home Mortgage Insurance projects.
- A grantee awarded unsupported loans and grants totaling \$3.1 million.
- Rental structures at five projects were converted, without proper authority, from an annual adjustment basis to an operating budget basis. If rents cannot be rolled back, \$36.4 million in scarce Section 8 funds will need to be reserved for these projects from September 30, 1997, to the end of their housing assistance payments contracts.
- HUD is finalizing a refinancing package for eight Section 236 projects that provides for expenditures of nearly \$181 million over 15 years to rehabilitate and stabilize the developments, over 80 percent of whose units do not meet housing quality standards.



# Public and Indian Housing Programs

Public and Indian Housing Programs are designed to assist low- and very low-income families in obtaining decent, safe and sanitary housing. During this reporting period, we continued our review of alleged fraud, abuse and mismanagement by certain Indian housing authorities as reported by *The Seattle Times* in December 1996. Additionally, we reviewed the award of HOPE VI funds, reviewed progress made by the Detroit, MI Housing Commission, and the administrative activities of various public housing authorities.

## Indian Housing

In December 1996, *The Seattle Times* ran a series of articles entitled “From Deregulation to Disgrace,” about program abuse at Indian housing authorities across the country. We have performed extensive audit work since that time and in our March 31, 1997 Semiannual Report to the Congress, we reported on the Inspector General’s testimony before the joint Senate Committees on Indian Affairs and Banking, Housing, and Urban Affairs. In her testimony she stated that the 29 instances described in *The Seattle Times* articles were generally accurate.

OIG recently completed reviews to determine if Office of Native American Program’s (ONAP) field offices provided effective oversight to identify and resolve problems for the 29 instances identified by *The Seattle Times*, and whether the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) contains the necessary safeguards and controls to ensure an equitable balance between flexibility and accountability for results. (Also refer to Chapter 5 under Legislation.)

We found that ONAP did not fulfill its oversight responsibilities to ensure that Indian housing authorities (IHA) provided housing consistent with program intent and rules for 20 of 29 instances reported in *The Seattle Times*. The majority (16 of 29) and the most troublesome instances occurred where the Eastern Woodlands and the Northwest ONAP field offices have oversight responsibility. For example, the Eastern Woodlands Office in **Chicago, IL**, did not act or put off taking action to identify and resolve problems, thus allowing problems to reach crisis stages at some IHAs; assumed new IHAs had the administrative capability to develop and manage housing programs without determining if the IHAs had the resources, capacity and systems necessary to do so; and did not always document decisions and actions to show their efforts to help IHAs develop and manage housing. Eastern Woodlands’ ineffective oversight contributed to the IHAs’ misuse of housing funds intended for low-income Native American families. Approximately \$11.6 million for six IHAs was either wasted or spent on ineligible or unsupported expenses. In addition to some of the same problems as Eastern Woodlands, the Northwest ONAP in **Seattle, WA**, allowed IHAs to administer “innovative” housing programs without understanding how these programs worked and if they met program rules and expectations. Northwest ONAP’s ineffective oversight contributed to the IHAs’ misuse of nearly \$3 million in funds intended for low-income Native Americans.

The instances reported in *The Seattle Times* probably show some of the worst examples of abuse and mismanagement in Indian housing. In fact, the 20 instances represent about 9 percent of all IHAs receiving housing assistance from HUD. The OIG does not want to imply that the problems illustrated in the 29 instances are a fair representation of how other IHAs perform.

As for the NAHASDA, ONAP’s Front End Risk Analysis classified it as vulnerable to fraud, waste, and abuse. For NAHASDA to be successful in meeting Congressional and recipient expectations, realistic performance measures and the necessary controls and sanctions must be developed, and ONAP must provide adequate oversight to ensure program objectives are met. Without this accountability, the potential for misuse and abuse of scarce federal housing funds could increase under NAHASDA.

The OIG audits made several recommendations to improve program performance, accountability, and enforcement actions to deter fraud, waste, and abuse. (Report Nos. 98-SE-107-0002; 98-SE-107-0801; 98-SE-107-0802; 98-SE-107-0803; 98-SE-107-0804; and 98-SE-107-0805)



In response to a complaint made to the Congress, the OIG audited the Cascade Inter-Tribal Housing Authority in **Sedro Woolley, WA**, and found that the allegations relating to procurement, use of Comprehensive Improvement Assistance Program grant funds, and travel could not be substantiated. However, we did confirm: (1) the improper award of a Section 8 voucher and a mutual help home to the same family member of both the former executive director and former Authority board chairman; (2) underreporting of income, payments lower than required, and profiting from unapproved subleases for mutual help homes of the former executive director, her family, and a friend; and (3) unrepaired health and safety hazards in occupied and vacant mutual help homes.

In addition to recommendations to correct the deficiencies found, the audit recommended that HUD determine what action, including debarment or limited denial of participation, is appropriate for the former executive director and the families with underreported or understated income. (Report No. 98-SE-207-1001)

## Public Housing

### *HOPE VI*

HUD awarded \$381 million of FY 1996 HOPE VI funds to 37 ineligible applicants. An OIG audit in **Washington, DC**, disclosed that the applicants were ineligible because they did not demonstrate compliance with the eligibility requirements as specified in the HOPE VI Notice of Funding Availability (NOFA). HUD determined the eligibility of the 37 applicants by either revising the criteria after the deadline date for submission of applications, not properly considering NOFA eligibility requirements, or enhancing applications by considering information not provided by applicants. As a result of HUD's awarding funds to ineligible applicants, the Department assumed increased risks of: applicants' planned activities primarily benefiting local organizational priorities instead of national goals, as required; funding to Empowerment Zone/Enterprise Community applicants not being supported and coordinated with the awards to HOPE VI applicants; viable housing units being scheduled for premature demolition; needs of residents at the targeted development and in the neighborhood surrounding the targeted development not being properly addressed by the applicants; and the most severely distressed housing units not being funded through this competition.

The audit recommended that the Department rescind the demolition and revitalization grant awarded to the Baltimore City Housing Authority; that grant agreements with the other public housing agencies (PHAs) not meeting eligibility requirements be conditioned on the PHAs' completing specific activities, as required; and that HUD's grant agreement with the Chicago Housing Authority be conditioned on the Authority's demonstrating that its planned activities would fulfill HUD's obligations under the Gautreaux Consent Decree and that the Authority has complied with the statutorily mandated requirements. (Also refer to Chapter 6 under Delayed Actions.) (Report No. 98-FO-101-0001)

As part of a nationwide review, the OIG audited the HOPE VI grants of the Housing Authority of the City of **El Paso, TX**, and found that the Authority expended amounts for eligible activities, and has made progress towards achieving the goals of its Revitalization Plan. In general, the Authority is satisfactorily carrying out its HOPE VI grant activities. However, the Authority needs to improve its procurement practices and determine how it will sustain its community and supportive services programs. The audit disclosed serious concerns relating to major Authority procurements, including sole-source and non-competitive contracts; apparent conflicts of interest and contractor influence in Authority procurements; multiple contracts being awarded to a few contractors; and poor contract documentation.

The audit recommended that HUD require the Authority to follow its procurement policy, take appropriate action against employees who violate this policy, provide justification and cost analyses for non-competitive contracts, and repay the program for any awards exceeding fair value. In addition, the Authority should make every effort to leverage public and private support to sustain the program after the grant term and obtain matching contributions from the city. (Report No. 98-FW-201-1003)



The Housing Authority of the City of **New Haven, CT**, was awarded over \$45 million in HOPE VI Program funds in FY 1993 for the purpose of revitalizing the Elm Haven public housing development. By April 1997, over \$3.4 million had been expended. An OIG audit of the administration of those funds disclosed that nearly \$853,000 in program costs were unsupported at the grantee level; over \$244,000 in program funds were advanced to the Authority's general fund in excess of returns; program administration costs were over \$773,000 over budget; no executed contract existed between the Authority and the Elm Haven Homes Partnership; and City of New Haven's HOPE VI Program matching funds were not identified.

On July 21, 1997, HUD issued a default letter to the Authority for its failure to reach any of the start/completion dates of the Elm Haven revitalization effort. The Authority was required to cure the default within 30 days, or develop a default resolution plan demonstrating it can resolve every factor which has caused it to fail. The Authority submitted a plan in August 1997. The plan is under review by HUD staff, but no formal decision has been made at this time.

The audit recommended that the Authority establish fiscal accountability and effective internal controls, and that HUD determine whether the Authority has the capacity to continue with the HOPE VI Program. The Authority also needs to obtain documentation for all unsupported expenditures. (Report No. 98-BO-204-1002)

A follow-up to our April 30, 1996 review of the **Detroit, MI** Housing Commission found that the Commission has made progress in all of the 16 problem areas identified in the previous report. However, as with any endeavor of this size, some actions have been delayed or overlooked and need increased emphasis. Of the 16 areas reviewed, 3 are particularly significant, since they more directly affect the living conditions of the residents. These areas are:

- Vacancy reduction/unit turnaround. The Commission significantly improved its vacancy rate mainly by demolishing uninhabitable units and removing units scheduled for modernization work from the vacancy rolls. New procedures reduced the turnaround time at stable developments. The improved vacancy rate should be sustainable if the Commission strictly follows its resident admission and evictions procedures, promptly fills its units upon completion of modernization work, and extends its new unit turnover procedures to the distressed developments after modernization work is complete.
- Maintenance. The Commission implemented a site based maintenance concept, established a preventive maintenance team, established a system to ensure timely completion of work orders, developed new job descriptions for all employees and a system to evaluate performance. However, maintenance supervisors did not document quality reviews of any inspections or completed work orders, and performance evaluations were not done.
- Security. The impact of the Commission's implemented plan appears to be successful based on the evaluation of arrest trends. However, the Commission needs to develop a method and criteria to measure the long-term effectiveness of each element in the plan and should expand its search for additional funding beyond the more obvious federal sources.

The report recommended that the Director of the Public Housing Division ensure that the Commission takes necessary actions to correct the problems cited in the report. (Report No. 98-CH-201-1804)

The Job Order Contracting (JOC) Program, administered by the Housing Authority of **Kansas City, MO** (HAKC), was developed with internal control weaknesses, implemented with management deficiencies, and abused by a contractor. An OIG audit reported that the JOC consultant, The Gordian Group, did not fulfill all responsibilities under its contract by failing to provide sufficient and timely training courses to ensure that HAKC was fully prepared to execute the JOC system. In addition, of \$976,000 in JOC work the OIG inspected, the contractor, F.H. Paschen Venture, Inc., overcharged HAKC \$227,000 for work not performed, substitution of quality, and overstatement of materials and labor. Deficiencies in HAKC's administration of the JOC Program can also be attributed to staffing



problems, including inadequate staff resources and training.

The audit also concluded that HAKC has not fully met the provisions of Section 9 of Public Law 104-120, the Housing Opportunity Program Extension Act of 1996. Neither the HAKC screening procedures nor its lease agreement contain all provisions required by Section 9 of the Act regarding resident alcohol abuse and off premises drug related criminal activity. Because the HAKC has not fully complied with these provisions, they may not be able to deny tenancy to applicants or evict current residents for violations of these provisions.

Because the JOC Program is used by other PHAs, we recommended that the Assistant Secretary for Public and Indian Housing require Gordian to amend its training program and instructional materials to require that PHA inspectors use contractors' detailed proposals when conducting JOC work inspections; and ensure PHAs develop a detailed scope of work and independent estimates adequate for comparison to contractors' detailed proposals. We also recommended that the Assistant Secretary require Gordian, in consultation with a PHA, to ensure the PHA has sufficient, well-qualified staff to administer the JOC Program. The Director, Office of Public Housing, should require HAKC to evaluate causes for frequent staff turnover and take steps to address those causes; take administrative sanctions against Paschen; and require HAKC to amend its screening procedures and lease agreement to include the appropriate language regarding alcohol abuse and drug related criminal activity on or off the premises. In response to the draft report, HAKC provided an amended lease agreement which properly addressed the issue of drug related criminal activity. However, it did not specifically address alcohol abuse. (Report No. 98-KC-204-1001)

An OIG audit found that the **Brockton, MA** Housing Authority's demolition application misrepresented the physical and neighborhood obsolescence and indicators of stress used to determine the need for demolition. HUD's decision was made without benefit of on-site inspections or available documentary evidence. In addition, residents, who were strongly opposed to demolition, were not consulted in the demolition decision, as required by regulations.

An Army Corps of Engineers evaluation reported that the project was sound and the Acting Assistant Secretary for Public and Indian Housing rescinded his approval of the demolition application, but offered the Authority the alternative to reapply. Therefore, there is still the potential for families being unnecessarily displaced from their current homes, against their wishes, and the loss of viable public housing stock.

The report recommended that HUD eliminate demolition as an option for the Authority because it does not meet the statutory or regulatory requirements, and that HUD recapture \$982,000 for the 56 Section 8 vouchers and certificates reserved for the relocation of displaced residents. (Report No. 98-BO-101-0001)

At the request of the Director of the **Ft. Worth, TX** Office of Public Housing, the OIG audited the Housing Authority of the City of **Lubbock, TX**, and found that the Authority paid three contractors over \$276,000 for work not done and nearly \$98,000 for work where the propriety of the payment could not be verified. In paying these contractors, the Authority did not follow even its own procurement policy, and management controls over conflict of interest and segregation of duties were ignored or lacking. The Authority also overdrew \$115,000 in HOPE I funds from HUD, and misused nearly \$129,000 in HOPE I funds and over \$477,000 in Comprehensive Grant Program funds. From November 1993 through March 1997, the Authority did not report to HUD \$1.9 million in rent and lease revenues. In addition, despite agreements to the contrary, the Authority misused over \$379,000 in project sales proceeds.

The audit made recommendations to remedy the deficiencies including the repayment of funds, civil remedies, and sanctioning of Housing Authority officials. (Report No. 98-FW-206-1001)

The Housing Authority of the City of **New Haven, CT**, failed to implement adequate accounting and managerial controls over the Public Housing Drug Elimination Program (PHDEP). An OIG audit disclosed that this failure resulted in nearly \$936,000 in reported costs not supported by an adequate audit trail; a \$55,000 difference in reported costs between the Authority's two sets of financial records maintained for the PHDEP; over \$135,000 of questionable costs; unnecessary employment overhead costs; and significant budget overruns.

These deficiencies were in addition to problems at the Authority previously disclosed by the OIG. An OIG interim report issued on June 2, 1997, described deficiencies regarding costs charged for law enforcement activities.



That report cited the Authority for not: executing a contract for services with the police department, establishing adequate management and accounting controls over enhanced police services expenditures, and instituting budgetary controls to prevent overspending. A contract with the New Haven Police Department was executed on June 9; however, the Authority had not established adequate management and accounting controls or instituted budgetary controls to prevent overspending on either the law enforcement activities or other aspects of the PHDEP. However, the Authority did advise on July 15, 1997, that some corrective actions had been taken and others were in process.

Our most recent audit recommended that the Authority be instructed to provide evidence that the financial management system implemented is effective in assuring only reasonable and eligible costs are charged to the PHDEP, and assure that prior unsupported expenses are reconstructed to provide for an adequate audit trail. In addition, the report recommended that prior unsupported costs for open PHDEP grants be reviewed for eligibility. (Report No. 98-BO-209-1001)

An OIG audit of the **Alma, GA** Housing Authority (AHA) disclosed that AHA's prior executive director, board, and the Alma Resident Council (ARC) mismanaged HUD programs. They ignored program budgets, and did not implement several major components of the Comprehensive Grant, Drug Elimination, and Tenant Opportunity Programs. Consequently, program objectives were not met. The mismanagement also deprived residents of improved living conditions and/or services that AHA and ARC represented to HUD that they would provide. Instead, AHA spent the funds for other activities which were either not in the budgets or exceeded amounts budgeted.

Specifically, the AHA and/or ARC incurred nearly \$120,000 for costs that were not allowable, incurred nearly \$593,000 in unsupported costs and diverted over \$28,000 in insurance proceeds from fire losses to pay other program costs, and obtained or made \$151,000 in unauthorized loans. The audit recommended that HUD require AHA or ARC to seek recovery of wasted funds and improve controls needed to safeguard program assets, and initiate debarment actions against AHA officials. (Report No. 98-AT-201-1001)

An OIG audit of the **New Orleans, LA** Housing Authority's contract with Tucker and Associates, Inc. (TAI) to create a comprehensive strategic plan for the Authority disclosed that the Authority's poor procurement practices, which were noted in our June 1994 audit, resulted in questionable costs and not all work being performed. The Authority could not support its selection of TAI, effectively sole sourced the contract to TAI, and did not perform an adequate cost analysis prior to contract award. Also, apparent conflicts of interest involving the Authority, the city, and TAI officials and associated parties permeated the contract procurement and negotiations. The questionable costs included over \$43,000 in unsupported charges, and nearly \$44,000 in unreasonable administrative expenses. In addition, neither TAI nor the Authority reduced the contract amount for work required by the contract that was not performed.

The audit recommended that the Authority recover questionable amounts from TAI, and that HUD take administrative action against TAI if it will not repay the Authority. (Report No. 98-FW-201-1002)

In prior years, lack of oversight by the board of commissioners of the Housing Authority of **Muskogee, OK**, contributed to the Authority's ineffective operations. Because of a critical HUD monitoring review in 1996, coupled with a consultant's report on problems in the administration of the Authority's Drug Elimination Program, the board terminated the executive director and took a more active interest in monitoring operations. An OIG audit disclosed, however, that although the board has been more actively involved during 1997, the board still generally relies on management staff to administer their programs and has not established an adequate system to monitor management performance. The audit also found that the Authority lacked adequate records and controls to ensure the accuracy of information systems, improperly used Low-Rent Program funds to support other activities, and did not follow HUD requirements for Section 8 housing quality inspections.

The audit recommended that the Authority reimburse the Low-Rent Program \$27,000 and implement controls to ensure funds are used appropriately in the future, that appropriate housing quality inspections be conducted, and that controls be put in place to ensure appropriate future inspections. (Report No. 98-FW-202-1804)





In response to an investigative report by the city and Congressional inquiries, the OIG reviewed the supplemental police services of the **Columbus, OH** Metropolitan Housing Authority. The specific issues were that the Authority may not have had a contract for supplemental police services, and may have paid the current coordinator of the Authority's supplemental police services, a sergeant for the City of Columbus' Division of Police, for services he did not perform or performed while he was on duty for the City of Columbus. We found no evidence that the Authority paid the coordinator improperly. However, we did find that the Authority did not adequately maintain supplemental police services records or follow its and HUD's contracting requirements for police services. The audit recommended that HUD assure that the Authority establishes controls over the time sheets/work assignments of supplemental police officers, and follows its procurement policy and procedures manual. (Report No. 98-CH-204-1807)

Following local newspaper articles indicating loss or theft of refrigerators owned by the Housing Authority of **Brownsville, TX**, the OIG reviewed the ability of the Authority to account for and safeguard such items. We also tested the Authority's procurement practices and made inquiries about the Authority's method for allocating costs to its various HUD funded programs.

We found that the Authority was not in full compliance with HUD requirements for: adequate safeguarding of its equipment and materials inventory; proper accounting for use of Comprehensive Grant Program funds; procurement of goods and services; and allocation of costs attributable to more than one HUD funded program. Our review also identified instances where Authority employees were used to conduct non-Authority business while being compensated with public funds. The audit made specific recommendations to correct each of these deficiencies. (Report No. 98-FW-202-1806)

At HUD's request, we reviewed the Housing Authority of the City of **Crystal City, TX**. Our preliminary report in November 1996 noted the primary problem facing the Authority was its precarious financial position resulting from the Authority's entering into an agreed judgment and payment of \$115,000 to its executive director. In addition, the Authority was involved in continuing litigation with several former employees alleging wrongful termination. The Authority's financial situation has not improved. The Authority settled two of the lawsuits but has a potential liability in excess of \$100,000 on a third. Therefore, we are continuing to recommend close monitoring of the financial condition and litigation status.

The preliminary report also noted the Authority did not follow HUD and federal procurement requirements. Further, the Authority did not have or did not use appropriate written contracts or, when necessary, obtain HUD approval of the contracts. In response to our preliminary recommendations, the Authority was placed on a preaward review for all contracts in excess of \$500. This final report is questioning \$102,000 related to the procurement transactions conducted prior to the preaward requirement. In addition, we are continuing our recommendation to conduct preaward reviews because of the Authority's financial position. (Report No. 98-FW-206-1807)

The Housing Authority of the City of **Atlanta, GA**, continues to experience serious problems in procurement and finances. An OIG audit found improper contract administration, solicitation deficiencies, improper contract modifications, inadequate procurement records, and prohibited contract terms. The Authority paid over \$106,000 in ineligible costs and lacked support for over \$518,000 in contracts let in 1996 and 1997. The Authority also lacked adequate cash controls and had poor financial records. It used nearly \$573,000 of federal funds for unauthorized purposes, and overstated total assets and liabilities in its FY 1997 balance sheet by \$18.7 and \$19.6 million, respectively. Also, it paid or owed nearly \$796,000 for taxes, penalties and interest, and paid over \$21,000 more in management fees than the contract allowed. Lastly, the Authority provided special consideration to three residents who served on the board of commissioners, creating potential conflicts of interest in board decisions.

The audit recommended appropriate actions to address the deficiencies including reimbursement for all ineligible and unsupported costs. (Report No. 98-AT-206-1004)

The Housing Authority of **New Orleans, LA**'s eviction process for drugs and criminal behavior is receiving



adequate information from law enforcement for it to identify residents for eviction. An OIG review found that law enforcement reporting showed improvement because of regular meetings with Authority officials. The review also showed that the Authority is improving on its drug and criminal evictions, and has made these evictions a high priority. The Authority does need to make improvements to its incident report data base, and solve the problem of not being able to obtain timely crime lab results. (Report No. 98-FW-201-1808)

## Section 8 Rental Assistance

In response to a Congressional inquiry regarding concerns from a constituent about alleged fraud, waste, and mismanagement, the OIG audited the **Columbus, OH** Metropolitan Housing Authority's Section 8 Program. The audit found that the Authority properly calculated its administrative fees and properly reported expenses to HUD. We found no evidence that the Authority inappropriately steered Section 8 residents from landlords.

The audit did find, however, that the Authority did not: properly disburse administrative fees because it lacked an acceptable cost allocation plan; properly identify the cause of housing quality standards (HQS) violations; conduct initial inspections on time; ensure Section 8 contract rents were reasonable; and process requests for annual rent increases in a timely fashion.

Among other things, the audit recommended that HUD cite the owners for HQS violations, and assure that the Authority provides training to staff to assist with identifying the cause of HQS violations, reimburses HUD for administrative fees as appropriate, and establishes a control log to track the rent increase request process. (Report No. 98-CH-203-1803)

## Single Family Housing Programs

Single Family Housing Programs provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, we reviewed the Single Family Real Estate Owned pilot contracts, a complaint concerning the use of a consultant/inspector, and the activities of an FHA approved mortgagee.

The OIG Capital District was requested by the **Washington, DC** Office of Single Family Housing to review the Single Family Real Estate Owned (SFREO) pilot contracts to identify areas where HUD is vulnerable to fraud, waste, and abuse. We were also requested to recommend ways to improve their proposed approach to issue a national single family property disposition contract. At the end of the audit, we were informed that HUD is no longer actively pursuing the national contract concept, but is considering the use of similar contracts at the individual HUD Single Family Home Ownership Centers. Based on our audit of the three pilot contracts, we identified program improvements that HUD should implement now as well as revised contract language that will improve the efficiency and effectiveness of the pilot contracts. These improvements were suggested in the areas of consistency and effectiveness of contract requirements; management of custodial properties; and the integrity and accuracy of data in the Single Family Acquired Asset Management System. (Report No. 98-AO-123-0001)

In response to a citizen's complaint to the HUD Hotline, the OIG reviewed the Section 203(k) Rehabilitation Home Mortgage Insurance Program in the **Grand Rapids, MI** area. The complaint alleged that lenders in the area used the same consultant/inspector for most of their loans, and the consultant/inspector did not perform proper inspections. The lenders did use the same consultant/inspector for most of their Section 203(k) loans; however, this did not violate any HUD rules. The consultant/inspector, however, did not always prepare adequate work write-ups and cost estimates, and did not always perform proper inspections. He also certified that work was completed when it either was not or was unsatisfactory. Although the HUD Grand Rapids Office was aware that the



consultant/inspector was not doing proper inspections, HUD did not take any action against him.

The audit recommended that HUD issue a limited denial of participation against the consultant/inspector and initiate debarment proceedings; require all mortgage companies doing business under the 203(k) Program to reinspect each property for which they used the services of this individual; require those mortgage companies involved to demonstrate that they have implemented an effective quality control plan within 6 months; and take appropriate action against any HUD employees who did not adequately fulfill their responsibilities to protect HUD's interests. (Report No. 98-CH-229-1805)

In **Buffalo, NY**, an OIG review of 20 loans originated by Countrywide Home Loans, Inc., an FHA approved mortgagee, disclosed 4 cases where Franklin Enterprises, Inc. and/or Erie Development, Inc. (real estate brokers/sellers) provided funds to relatives. In turn, those individuals gave the same amount of money as gifts to borrowers, who used them to qualify for FHA insured mortgages. Three of the 4 mortgages are in default and 23 percent of the 53 loans where Franklin Enterprises and Erie Development were the real estate brokers/sellers are in default. We believe the brokers/sellers circumvented the FHA requirement that prohibits them from being donors of gifts to borrowers applying for FHA insured mortgages. As a result, ineligible borrowers may have qualified for and received insured mortgages.

The audit recommended that the HUD Buffalo Office take immediate action against Franklin Enterprises and Erie Development and attempt to recover any losses that may have already occurred. (Report No. 98-NY-221-1815)

## Community Planning and Development Programs

The Office of Community Planning and Development (CPD) administers programs that provide financial and technical assistance to states and communities for activities such as community development, housing rehabilitation, homeless shelters, and economic and job development. Grantees are responsible for planning and funding eligible activities, often through subrecipients. During this reporting period, OIG audits focused on various grant programs.

### Grant Programs

The Community Development Block Grant (CDBG) Program provides annual grants to entitled communities to carry out a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved facilities and services. The Youthbuild Program provides grants for programs designed to offer youth sports, recreational, cultural, and educational activities. Participants in the HOME Program may use funds for tenant-based assistance, housing rehabilitation, assistance to first-time homebuyers, new construction, and relocation. The Section 108 Loan Guarantee Assistance Program allows communities entitled to CDBG grants a means to finance up-front, certain large scale projects beyond the scope that can be financed by annual grants.

The City of **Virginia Beach, VA** (grantee), did not properly follow HUD requirements for the construction of new residential housing. An OIG audit found that the grantee established a replacement housing loan program as part of its neighborhood rehabilitation program and relocation plan and has constructed 90 new homes since 1982. Although the program was approved as a CDBG eligible activity by HUD, the grantee did not meet the regulatory criteria necessary to make this an eligible program. As a result, the grantee established a questionable CDBG activity and awarded unsupported loans and grants totaling over \$3.1 million. The grantee also used CDBG funds to pay off or refinance liens and judgments on homeowners' property, contrary to HUD regulations.



The audit recommended that HUD evaluate the grantee's administration of its replacement housing program, determine the eligibility of the \$3.1 million, and require the grantee to repay any ineligible loans/grants. (Report No. 98-PH-241-1001)

The City of **Miami, FL**, improperly administered its Community Planning and Development Programs for 1995 and 1996. An OIG audit found that the city shifted costs between federal grants to avoid expenditure limits, exceeded the 20 percent CDBG limit for 2 years, and charged indirect costs without approved cost allocation plans. In total, the city charged the HUD program \$5.2 million to which it was not entitled. The city also managed its loan programs so poorly that \$9.9 million of its portfolio was in default at May 30, 1997. Involvement by the city's commissioners, in direct opposition to recommendations by the loan committee, resulted in failed projects, and underwriting and collection procedures were in need of overhaul. Finally, the city allocated \$4.75 million for a project it knew, or should have known, was not feasible. The property appraisal was overstated, the homes were not affordable, and financing was insufficient. An October 1996 consultant's report concluded the project was not feasible. Nevertheless, the city spent \$1.9 million in HOME funds even though the developer did not presell or construct any units, provide evidence of sufficient financing, or ensure the project was affordable.

Our report includes a total of \$3.1 million in ineligible costs and \$5.2 million in unsupported costs. We recommended that the city reimburse the CDBG Program for all unsupported and ineligible costs, develop and implement controls and procedures to ensure proper administration of its loan programs and proper safeguarding of its assets, and demonstrate how the housing project can be made affordable to low- and very low-income families. (Report No. 98-AT-241-1003)

Although the Cole Coalition — a neighborhood based, nonprofit organization in **Denver, CO**, that was awarded three grants under the Youthbuild Program — has developed an adequate financial system, an OIG audit found that the Cole Youthbuild Program has not accomplished its original goals, has not met all program criteria, and has had few positive results. The program suffered many changes and internal disagreements, which led to adverse results and an eventual suspension of the program by the Cole Coalition. These disagreements led to the withdrawal of two of the three original partnership agencies, a change of the on-site construction site, a change to the 50 percent on-site training requirement, and a significant change in the number of students being served. HUD is currently deciding if the program should be restarted and continue under the direction of the Cole Coalition, or if the grant should be cancelled. The audit recommended close monitoring of the program if HUD decides to continue to fund the program. If not, all remaining funds should be recovered. (Report No. 98-DE-249-1801)

In response to citizens' complaints, the OIG reviewed the CDBG Small Cities grants received by the Village of **Fort Plain, NY**, and found that programs were administered by a consultant and its subcontractor without any monitoring or oversight by the grantee. This has allowed significant weaknesses in the system of administrative and internal controls to remain undetected. For example, case file reviews and selected property inspections disclosed that documentation supporting the propriety, cost reasonableness, and inspections of rehabilitation work were not accurate or sufficient. Documentation supporting the procurement of the consultant's contracts showed very little evidence that the grantee actively solicited proposals from other consultants. In fact, the grantee advised that the consultant controlled most aspects of the procurement process. In addition, certain costs charged to the programs were not reasonable or eligible.

The audit recommended that HUD require the grantee to seek recovery from the contractors responsible for the work not done or poorly done, determine the appropriateness of the consultant's charges, and monitor the grantee's implementation of corrective actions. (Report No. 98-NY-250-1802)

An OIG audit of the City of **Homestead, FL**, conducted in response to a request from the HUD Coral Gables Office Director of CPD, disclosed that the city did not have an effective system to adequately track the expenditure of HOME funds. There were significant differences between HUD's record of draws and expenditures and the actual expenses incurred by the city. A review of the summary of expenditures related to the 1992 HOME grant showed that



the city drew over \$537,000 from its HOME account to cover administrative expenses, but charged only about \$232,000 in administrative expenses; drew \$446,000 to cover technical assistance related expenses, but charged over \$142,000 more than the amount drawn; and expended about \$447,000 more on projects than authorized and \$396,000 in excess of draws to cover projects expenses.

The city did not deposit over \$500,000 in program income into a separate local HOME account and did not use this income before making additional draws of HOME funds, in violation of HOME regulations. The city acquired over 150 lots using over \$3 million in HOME funds. Although HOME funds can be used to acquire vacant lots, the acquisition must be part of an otherwise eligible HOME project. The acquisition costs of these lots exceeded what the city had anticipated, and the city now has insufficient funds to complete projects on 37 of these 150 lots. Based on the average amount of funds expended on the acquisition of the lots, the total HOME dollars expended improperly on these 37 lots is over \$1.4 million.

The audit recommended, among other things, that HUD require the city to establish an effective system to properly account for and track HOME expenditures; close out the 1992 HOME grant; submit plans to develop HOME eligible projects on all vacant lots that were acquired using HOME funds; and reimburse HUD for any HOME funds used to acquire any vacant lots that do not have a HOME eligible project completed or under contract by October 31, 1999. (Report No. 98-AT-255-1002)

An OIG audit found that allegations were invalid that the City of **Seattle, WA's** Section 108 loan guarantee application for acquisition of the Frederick and Nelson building should not have been approved because it included inaccurate or unreliable information, and that various HUD requirements were not met. The audit concluded, however, that the complaints identified four programmatic issues which HUD should address by reminding grantees that they need to explain to citizens how the assistance to for-profit businesses meets regulatory requirements; deciding whether it should better define the criteria for spot blight; informing grantees submitting Section 108 applications of the importance of complete disclosure of pertinent facts about the project; and determining if there is a need to address citizen concerns and misconceptions about the program.

The report also noted that the city's administration of the Section 108 project lacked documentation required by HUD to support its certification that it had made efforts to obtain alternative financing for the project, and that the city did not fully comply with statutory citizen participation requirements because it failed to publish in a newspaper the proposed Section 108 application.

The report recommended that HUD address the programmatic issues and take appropriate action regarding the two deficiencies in project administration. (Report No. 98-SE-148-0001)

## Multifamily Housing Programs

In addition to multifamily housing projects with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. In addition to its Operation Safe Home equity skimming work, during this period the OIG reviewed Section 8 rent increases under the budget-based method; and a proposed refinancing plan for eight projects.

### Section 8 Rent Increases

The OIG reviewed the Section 8 Rental Assistance Program to identify any projects whose rental structure had been converted from an annual adjustment basis to an operating budget basis, and to determine if the conversions were properly approved. We also determined if a pattern of budget-based Section 8 assisted projects with rents significantly exceeding 120 percent of fair market rents existed, and if the Department was funding capital



improvements. Our review focused on Section 8 budget-based projects whose rents exceeded 150 percent of fair market rents (FMRs).

The audit found that rental structures at five projects were converted from an annual adjustment basis to an operating budget basis. Approval of these conversions was made by individuals without proper authority, resulting in misappropriation of government funds. These actions also impeded HUD's ability to comply with Section 106 of the HUD Reform Act of 1989 requiring that waivers of regulations be published. As a result, if rents cannot be rolled back, \$36.4 million in scarce Section 8 funds in excess of 120 percent of FMRs will need to be reserved for these projects from September 30, 1997, to the end of their Section 8 housing assistance payment contracts.

Fifty-four budget-based projects have rents in excess of 150 percent of the FMRs. While representing only 4.5 percent of the 1,200 projects whose rents exceed 150 percent of FMRs, these 54 projects are costing the Department annually up to \$17.4 million more than projects whose rents are limited to 120 percent of FMRs. We also found that some asset managers are granting rent increases in excess of 120 percent of FMRs for capital improvements, which is contrary to the Department's policy.

The audit recommended that HUD provide guidance to prevent rent structure conversions without proper approval, and prevent rent increases from significantly exceeding 120 percent of FMRs. Further, the Department's policy on funding capital improvements should be clarified.

Our draft report contained a recommendation to obtain a formal legal opinion concerning the exclusion of Section 236 projects from the requirement to reduce rents to 120 percent of FMRs upon renewal of their Section 8 contracts. Although the Office of Housing has agreed to request further review by HUD's Office of General Counsel (OGC), we removed this recommendation from the final report because the OIG has requested OGC's opinion on this matter. (Report No. 98-BO-111-0002)

## Proposed Refinancing Plan

HUD is finalizing an expansive refinancing package for eight Section 236 projects, known as the Jose De Diego Beekman Houses, in **New York City**. The package provides for HUD expenditures of nearly \$181 million over the next 15 years to rehabilitate and stabilize the developments, over 80 percent of whose units do not meet basic housing quality standards, while holding harmless the parties who own and manage the properties. Under the package, substantial benefits can accrue to these owners, while only a nominal contribution for their continued participation is required. An OIG audit states our concern that the plan is a poor deal for HUD and the taxpayers, the plan rewards a landlord who may bear responsibility for the deplorable conditions of the projects, and HUD's agreements with the landlord may undermine HUD's enforcement ability.

The OIG recommended that the plan be reconsidered in light of these concerns. While the retention of affordable housing is an important goal, the plan fails to make the case for why provision of such expansive benefits by HUD to the owners is required in order to meet that goal. Absent additional safeguards, the plan will provide a substantial windfall to the owners and a substantial drain on limited HUD resources. At a minimum, the Beekman financing plan should provide accountability by the parties receiving these benefits similar to that provided for in a plan HUD executed in Missouri for a large number of loans purchased by the Missouri Housing Development Commission. To the extent that the funds being provided by HUD do not directly benefit the development and its residents, those funds should be recouped by HUD. In addition, the owners' contribution to this plan should more accurately reflect the long-term investment by HUD and the benefits to these owners. Finally, the OIG recommended that HUD not curtail its enforcement ability before it has time to fully evaluate all the facts. (Report No. 98-NY-112-0801)

## Financial Statement Audits



Under the Chief Financial Officers Act of 1990, OIG is responsible for auditing or selecting an independent accounting firm to audit HUD's financial statements. During the reporting period, OIG issued reports on the FY 1997 financial statements of GNMA, FHA and HUD as a whole. These reports not only address the traditional financial audit issues of whether the financial statements are presented fairly, but they also assess the adequacy of the entities' internal control systems and compliance with laws and regulations. In the first chapter of our Semiannual Report to the Congress as of March 31, 1997, we reported on the results of HUD's FY 1996 financial audits and noted that the results of the audits provided for a comprehensive evaluation of HUD management and efforts to address significant weaknesses in its internal controls. For the most part, the results from the FY 1997 audit are similar to prior years and are as follows:

- The accounting firm of KMPG Peat Marwick, engaged by the OIG, found that the GNMA financial statements were presented fairly in all material respects. Further, the audit found no material weaknesses or other reportable conditions with GNMA's internal controls, nor any material instances of noncompliance with laws and regulations.
- KMPG Peat Marwick found that FHA's financial statements were also presented fairly in all material respects. However, the audit identified material weaknesses in FHA's systems of internal controls, and reported that FHA was not in compliance with the data and accounting requirements of the Credit Reform Act of 1990.
- The OIG expressed a qualified opinion on HUD's consolidated financial statements because accounting standards that apply to those financial statements were not followed in reporting on FHA's loan programs. The audit also identified a series of material weaknesses with the Department's systems of internal controls, and concluded that the Department was not in compliance with Federal Financial Management Improvement Act of 1996, or, as noted above, the Credit Reform Act of 1990.

HUD continues to face major challenges in its efforts to correct material internal control weaknesses. As we discuss in the report on HUD's consolidated financial statements, HUD needs to overcome issues with its internal control environment, such as the need to upgrade financial systems and improve resource management, that are adversely impacting its ability to carry out its mission and improve the management of its programs. Our reports discuss the significance of HUD's financial management and control problems and HUD's actions to correct them. In large part, these problems are long-standing, and while HUD has developed corrective action plans, progress has generally been slow in implementing these plans. The material weaknesses relate to the need to:

- complete improvements to financial systems;
- improve resource management;
- ensure that subsidies are based on correct tenant income;
- continue efforts to improve monitoring of multifamily projects;
- address FHA staff and administrative resource issues;
- place more emphasis on early warning and loss prevention for FHA insured mortgages; and
- improve FHA's accounting and financial management systems.

The reports also discuss 10 other reportable conditions with HUD's internal controls that are of lesser significance than the material weaknesses listed above. (Report Nos. 98-FO-171-0002, 98-FO-131-0003, and 98-FO-177-0004)



# Investigations

In addition to its Operation Safe Home responsibilities, the Office of Investigation pursues allegations of irregularities or abuses in HUD's programs and activities, as well as violations of law or misconduct on the part of HUD participants and beneficiaries. During this reporting period, investigative efforts resulted in cash recoveries of \$244,602 and court ordered restitution of over \$2.3 million, while fines levied exceeded \$106,000. In addition, 64 persons were indicted, 55 persons were convicted, and 36 years of prison sentences were imposed as a result of investigative operations.

Some of the more significant investigation results during this reporting period include the following:

- A real estate speculator was sentenced to 60 months in prison and 5 years supervised release, and ordered to pay \$517,000 in restitution to the government and a mortgage company for losses they incurred from 34 fraudulent loans totaling nearly \$3 million.
- The former president of a real estate investment corporation pled guilty to federal mail and tax fraud charges for his part in a scheme to fraudulently obtain more than \$1.4 million in HUD insured property improvement loans.
- A federal grand jury indicted two individuals on conspiracy, false statement, and theft charges. They allegedly received about \$100,000 in Section 8 rental assistance benefits to which they were not entitled.
- Two individuals were indicted on 48 counts of aiding and abetting, conspiracy, theft of government funds and money laundering involving Community Development Block Grant funds. As part of the scheme, a contractor allegedly received more than \$350,000 in grant funds for work that was never performed.
- A general partner of a partnership which owned a 77-unit apartment complex pled guilty to submitting false documents concerning an \$800,000 Section 108 rehabilitation loan. The rehabilitation work was never performed.





# Single Family Housing Programs

Single Family Housing Programs provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, OIG investigations continued to uncover instances of wrongdoing by mortgagee personnel and real estate brokers in the origination of single family loans, including Section 203(k) loans, as well as instances of equity skimming. Equity skimming is the illegal use of any part of the rents, assets, proceeds, income or other funds derived from any HUD insured property.

## Loan Origination

Victor Noval and James Weatherly, employees of Allstate Mortgage in **Whittier, CA**, pled guilty to mail fraud and making false statements to HUD. Noval also pled guilty to tax evasion. The men were involved in a real estate scheme where they and other individuals obtained contracts to purchase properties and then qualified buyers by using false social security numbers and credit reports. The loans were closed and the purchase prices inflated to almost double the purchase amount. After funding, the loans were sold to legitimate loan companies with the individuals keeping the excess funds. An estimated \$60 million in FHA loans are involved. Four other individuals have been indicted in this scheme. This was a joint investigation involving the FBI, IRS and OIG.

A **Norfolk, VA** real estate speculator, Wendell Chick, was sentenced to 60 months in prison and 5 years supervised release, and ordered to pay \$517,000 in restitution to the government and a mortgage company for losses they incurred from 34 fraudulent loans totaling nearly \$3 million. Chick previously pled guilty to federal wire fraud and money laundering charges, admitting that he directed a scheme in which he purchased deteriorated properties, inflated their prices through fictitious sales to companies he controlled, and then sold the properties to unsuspecting buyers. He helped the buyers obtain their HUD insured or Department of Veterans Affairs (DVA) guaranteed mortgages through fraudulent means, including bogus gift letters and fictitious car sales to explain the buyers' source of funds. In addition to this sentence, Chick previously agreed to forfeit over \$2.7 million in assets to the government.

Noel Becerra, a former associate of real estate speculator Wendell Chick, pled guilty to one count of wire fraud for his role in assisting homebuyers in submitting false applications for 13 mortgages insured by HUD or guaranteed by DVA. Becerra admitted locating buyers for Chick's properties and helping provide false income and asset information on behalf of the buyers so they could qualify for the mortgages. He also admitted submitting false statements on loan applications for two properties that he and his wife purchased. In addition to his guilty plea, Becerra agreed to forfeit nearly \$1 million in assets to the government. This case was investigated by the Operation Homestead Task Force, composed of the FBI and the HUD and DVA OIGs.

Behrooz Daneshmand, a **Beaumont, TX** siding company president, was sentenced to 30 months in jail followed by 3 years supervised probation after pleading guilty to fraud in connection with a HUD residential home repair and improvement program. The loss to the program is estimated to be \$1,357,440, resulting from Daneshmand's scheme to solicit and fund home improvement contracts with HUD insured loans and then provide false completion documents in order to receive payment in full. He was ordered to pay \$145,181 in restitution to HUD and Statewide Mortgage Company and was banned from doing business involving loans or home improvements/repairs. This was a joint investigation by the FBI and OIG.

In **Fort Worth, TX**, Francie Sedlak Randall, a single family investor, was sentenced to 15 months in jail, 36 months probation, fined \$50, and ordered to pay full restitution of \$226,514 (\$181,486 to HUD and \$45,028 to DVA). Previously, Randall pled guilty to making false statements in bankruptcy petitions when an OIG investigation



disclosed that she had filed for bankruptcy on four occasions and hid her bankruptcies from HUD by using false information on each petition, including false social security numbers and variations on the spelling of her name.

In **Baltimore, MD**, Mark Feinberg, former president of Consumer First Mortgage Corporation, an FHA approved mortgagee, was sentenced to 21 months incarceration to be followed by 3 years probation for his role in submitting a false statement to HUD and for committing bank fraud. Feinberg filed false financial reports to obtain \$5 million in credit extensions to which the corporation was not entitled, and filed a false financial report with FHA misrepresenting the corporation's net worth, thereby allowing the corporation to continue originating FHA mortgages. This was an FBI/OIG investigation.

Darrell, Greg, and Perry Traylor were sentenced for defrauding purchasers of HUD insured single family homes. The brothers operated a firm known as Municipal Buying Service in **Deland, FL**, and provided down payments to buyers through the use of a church that was created and operated for the sole purpose of hiding the source of the down payments. The court found that the brothers knew at the time the promises to build the homes were made that their company did not have enough funds to complete construction and would use the purchasers' deposit money to finish other construction jobs and pay salaries, commissions, and administrative expenses. Darrell received 3 years in prison, 2 years community control after release, 8 years probation, and full restitution to the victims. Greg received 2 years community control, 10 years probation, and restitution to the victims. Perry received 5 years probation. The investigation was conducted jointly by OIG and the State Attorney's Office following a referral from HUD's Office of Lender Activities.

Rusty Fields, the former president of Optimum Investments, Inc., a real estate investment corporation in **Tacoma, WA**, pled guilty to federal mail and tax fraud charges in connection with his scheme to fraudulently obtain more than \$1.4 million in HUD insured property improvement loans. Fields admitted that between December 1992 and December 1995, he falsified numerous HUD Title I loans, lease agreements, contractor bids, and appraisals, and prepared a false tax return for one of his many strawbuyers. Sentencing is scheduled for May 1998. Fields faces a maximum of 8 years in prison, \$500,000 in fines, and restitution. This investigation resulted from information received from an employee of HUD's Seattle Office of Housing and was conducted by the OIG, the IRS Criminal Investigation Division, and the U.S. Attorney's Office, with assistance from HUD's Quality Assurance Division and the OIG Office of Audit.

Karen Smith, a **St. Louis, MO** real estate broker, pled guilty to submitting false statements to HUD on a 1995 loan application. In applying for the loan, Smith failed to disclose a previous foreclosure on a HUD insured loan, provided fraudulent tax returns and a fictitious social security number. Although she pled guilty to this one count, for sentencing purposes her role in two other fraudulent HUD loans will be considered.

In the same case, a real estate agent was indicted on one count of submitting false statements to HUD and one count of obstruction of justice involving a HUD insured property. The agent allegedly aided in the submission of fraudulent income tax returns for a HUD insured property purchased by another individual. The obstruction of justice charges were added when the agent allegedly asked an individual to lie to the federal agents about the loan. This was a joint FBI/OIG investigation.

## ***Section 203(k)***

Lori Askins Baumgarten, a former settlement processor in **Baltimore, MD**, was sentenced for conducting six settlements for members of the John Baumgarten organization without the settlement company's knowledge. She was sentenced to 12 months incarceration followed by 2 years probation. Baumgarten used the settlement company's money to temporarily fund purchasers' settlement cost obligations because the purchasers lacked the



necessary money to settle. The purchasers then provided the necessary settlement funds when Section 203(k) rehabilitation draw checks were deposited in their personal bank accounts. Loss to the mortgage company was over \$200,000.

In the same case, Victor Mears pled guilty to a charge of perjury for lying under oath during a previous trial involving John Baumgarten. Mears previously testified that Baumgarten was not involved in selling 2 ounces of cocaine when in fact he was involved. Baumgarten and his sons were indicted for allegedly conspiring to distribute cocaine. Under criminal forfeiture laws, the government is moving to seize 27 properties, 20 boats/cars, and over \$3 million in cash owned by the Baumgarten and his sons. Many of the properties were targeted for rehabilitation under the Section 203(k) Program, and there is evidence that drug proceeds were laundered through some of the properties. In addition to committing perjury, Mears pled guilty to cocaine distribution charges.

Additionally, ex-attorney Warren Rollman pled guilty to one count of making a false statement and one count of aiding and assisting in the filing of a false tax return. His wife, Shawn Mahn, also pled guilty to one count of making a false statement and one count of filing a false tax return. Rollman, an associate of John Baumgarten, Sr., used his wife to purchase 14 different properties under the Section 203(k) Program. False information was used to qualify for the loans and the rehabilitation funds were used for unauthorized purposes. This was a joint investigation by the FBI, DEA, OIG and IRS.

Courdia McDaniel, a former free lance mortgage broker in **Memphis, TN**, pled guilty to four counts of bank fraud and submitting false statements to HUD. McDaniel obtained a Section 203(k) loan by using a niece's identification and falsifying employment and earnings histories. The loan went into default and subcontractors were not paid. HUD and First Tennessee Bank collectively lost about \$62,000. This was an OIG investigation.

### *Equity Skimming*

In **Phoenix, AZ**, Seth Randall Wood was sentenced for his role in a scheme to acquire single family properties by assumption. He placed residents in the properties and collected rents while the mortgages went into default. Wood and John Edwin Goldberger, a single family investor and former mortgage broker, stalled foreclosure proceedings by filing over 80 bankruptcy petitions and 40 deeds in false names. Following his indictment, Wood entered into a plea agreement and cooperated with the government in its investigation of Goldberger. Wood was sentenced to 12 months incarceration to be followed by 36 months supervised release, fined \$2,500, and ordered to pay \$132,120 in restitution, \$83,680 to HUD and \$48,440 to the DVA. Goldberger pled guilty to bankruptcy fraud, single family equity skimming, and bank fraud. The guilty plea also resolved charges relating to Goldberger's participation in a fraudulent single family loan origination scheme in **San Diego, CA**. Goldberger agreed to make restitution to HUD and the DVA, and to serve 30 months in prison. The Phoenix investigation was conducted jointly by the HUD and DVA OIGs, and the San Diego investigation was conducted by the FBI and HUD OIG.

## Section 8 Rental Assistance Program

Although most rental assistance recipients use their assistance for its intended purpose, OIG investigations have found that some circumvent program regulations by obtaining assistance under false pretenses. These cases may be investigated by Task Forces or individual Special Agents.

Four **Mineola, NY** individuals were sentenced for defrauding the Section 8 Program. The individuals



submitted false verifications of income and false income and employment statements, and obtained nearly \$45,000 in Section 8 rent subsidy and social security payments for which they were not eligible.

The four individuals, including a former Long Beach Housing Authority Section 8 clerk and an employee of the Nassau County Office of Housing, were ordered to pay a total of \$26,105 in restitution and an \$85 fine, and serve 100 hours of community service and 2 years probation. The individuals also paid a total of \$4,500 in restitution as part of the plea agreement. This was a HUD Fraud Task Force investigation conducted by the FBI, U.S. Postal Inspection Service and the Social Security Administration and HUD OIGs.

A former Section 8 resident in **Memphis, TN**, who previously pled guilty to 11 counts of making false statements to qualify for rental assistance, was sentenced to 3 years probation, a \$550 special assessment fee, and ordered to seek mental health treatment. The resident made false statements indicating that she was the landlord for the Section 8 rental property and received more than \$11,000 in excess Section 8 subsidy payments. The investigation was conducted by OIG.

Two municipal hospital employees in **Garden City, NY**, pled guilty to larceny. The individuals, husband and wife, defrauded the Section 8 Program of nearly \$8,000 by failing to report their true income and submitting false statements. The couple agreed to make restitution to the Section 8 Program, and faces sentences including probation, fines, and community service. This was a HUD Fraud Task Force investigation conducted by the OIG, Postal Inspection Service, and the Special Investigations Bureau of the Nassau County District Attorney's Office. To date, since inception of the Fraud Task Force, 64 individuals have been arrested and/or indicted on charges of defrauding HUD and its programs, with over \$1.3 million in fines, restitution, Program Fraud Civil Remedies Act penalties and forfeitures.

Marvin Henderson, a HUD assisted resident, was sentenced to 120 days home confinement, 5 years probation and full restitution to the **Seattle, WA** Housing Authority for concealing his employment income from the Authority. This follows his August 1997 guilty plea. Between April 1985 and June 1995, Henderson obtained \$17,060 in rental assistance to which he was not entitled. This was an OIG investigation.

Section 8 recipient Barbara Ann Bisor pled guilty to one count of submitting false statements and agreed to cooperate regarding any possible co-conspirators. This follows a joint investigation by the FBI and OIG which found that Bisor applied for and received Section 8 assistance on a property in which she had part ownership. She provided false statements to the **Dallas, TX** Housing Authority in order to receive assistance to which she may not have otherwise been entitled.

Dennis Horak, a Section 8 landlord in **Garden City, NY**, pled guilty to charges that he extorted additional rent payments over and above the contracted amount that he was entitled to receive from an 82-year old widow. A joint investigation by OIG and the Special Investigations Bureau of the Nassau County District Attorney's Office disclosed that Horak extorted \$3,400 from the victim and threatened to evict her if she failed to pay. She has lived in the apartment for 17 years. Horak was sentenced to 12 months conditional discharge, fined \$300, and ordered to pay the victim \$3,400 in restitution.

In **St. Louis, MO**, Melvin Cromer, a Section 8 landlord, pled guilty to one count of mail fraud for collecting over \$20,000 in Section 8 benefits received through the mail. While occupying the same residence with Cromer, his girlfriend, a Section 8 recipient, did not report his income when applying for assistance. However, during this time, Cromer claimed the girlfriend's children on his tax returns, co-signed on her vehicle, and placed her and her children on his life insurance and a joint credit card. The Section 8 resident with whom Cromer was living has been indicted and plea negotiations are underway. Sentencing for Cromer is scheduled for June 1998. This was an OIG investigation.



A landlord and a resident in **St. Louis, MO**, were indicted on nine counts of mail fraud for allegedly occupying the same Section 8 residence between 1991 and 1995. The individuals were arrested by OIG Agents in February.

In **Bronx, NY**, a former employee of the New York City Human Resources Administration (HRA) was indicted on charges that she defrauded the HUD Section 8 Program out of \$28,512 that she was ineligible to receive. A joint investigation by the HUD and New York State OIGs and the Postal Inspection Service disclosed that the employee allegedly falsified her true income, concealed her employment at HRA, falsely claimed that she was a part-time employee of the Legal Aid Society, arranged for the issuance of social security numbers for two nonexistent children, and caused several false letters to be filed on her behalf as verifications of employment.

A federal grand jury in **St. Cloud, MN**, indicted two individuals on one count of conspiracy, five counts of false statements and one count of theft. The individuals allegedly received approximately \$100,000 in rental assistance benefits to which they were not entitled. This was an OIG investigation.

In **St. Louis, MO**, a Section 8 resident was indicted on four counts of making false statements and two counts of falsifying tax forms by using a fraudulent social security number. The resident allegedly used a fictitious social security number while working at a nursing home and failed to report to the local housing authority any wages she earned. This was an OIG investigation.

## Community Planning and Development Programs

CPD Programs provide financial and technical assistance to states and communities for activities such as community development, housing rehabilitation, homeless shelters, and economic and job development. Grantees are responsible for planning and funding eligible activities, often through subrecipients. OIG investigations of these programs disclosed cases of conspiracy, embezzlement, money laundering, false statements, bribery, theft of government funds, and mail and wire fraud.

Dorothy Rivers, founder and president of the **Chicago, IL** Mental Health Foundation, was sentenced to 70 months incarceration followed by 3 years supervised release, and fined \$1,925 following a 40-count indictment against her. In addition, the IRS plans to seize her financial assets. Rivers was charged with mail and wire fraud, theft of federal funds, obstruction of a federal audit, false statements, tax evasion and failure to file tax returns. She received two Transitional Housing Grants from HUD totaling \$5.2 million earmarked for the homeless, handicapped, and teenaged mothers. Combined with State of Illinois grants and Chicago Board of Education grants, she received more than \$11 million in grant monies. Rivers converted over \$1.2 million of these funds for her personal use, including mortgage payments and loans, personal business expenses, political contributions, lavish parties, furs, and a luxury vehicle. The charge of obstructing a federal audit stemmed from her activities during an OIG audit. This was a joint investigation by the Postal Inspection Service, IRS Criminal Investigation Division, and the OIG Offices of Investigation and Audit.

In **Buffalo, NY**, former Chief City Judge Wilbur P. Trammell, who was also general partner of 400 Elmwood Avenue Associates, a limited partnership which owned a 77-unit apartment complex, pled guilty to submitting false documents concerning an \$800,000 Section 108 rehabilitation loan. Trammell submitted false invoices documenting rehabilitation work on an apartment building he owned; the work was never performed. This was a joint FBI/OIG investigation.

A federal grand jury in **Memphis, TN**, returned a 48-count indictment against two individuals for aiding and



abetting, conspiracy, theft of government funds, and money laundering involving Community Development Block Grant (CDBG) funds awarded to the City of Memphis Department of Housing and Community Development (HCD). The indictment resulted from a 2-year investigation into the manner in which the supervisor of HCD's Rebuild Program selected contractors and authorized draws. The Rebuild Program was a CDBG funded city initiative to demolish and rebuild single family properties in the inner city for low-income/elderly homeowners. The program's supervisor was responsible for assigning contracts and approving draws from the contract price to the contractor. The contract price was a set price based on bedroom size and whether the residence was handicapped accessible. Under terms of the contract, the contractor was authorized two payments only, a 60 percent draw after the foundation, slab, rough electrical and plumbing, framing and roof were in place, and a final payment after completion of all work.

The supervisor allegedly conspired with one of the contractors so that the contractor received in excess of \$350,000 in CDBG funds for work never performed. The contractor deposited the funds in a company bank account, and then withdrew the funds through cash disbursements and/or utilized the funds for personal benefit. This was a joint investigation by the OIG and the IRS Criminal Investigation Division.

In **Philadelphia, PA**, contractor Milton Fisher was sentenced to 3 years probation and a \$25,000 fine for paying \$57,000 in bribes to 2 officials of the Logan Assistance Corporation, a HUD funded entity established to assist in the relocation of residents whose homes were sinking in a section of North Philadelphia. Because of Fisher's cooperation in the federal investigation, the judge did not impose a period of incarceration. However, Fisher was ordered to pay \$100,789 in restitution, \$37,524 to the Philadelphia Housing Development Corporation (PHDC) as reimbursement for repairs PHDC made to the properties to meet federal occupancy standards, and \$63,265 to be distributed among 14 relocatees as reimbursement for repairs they made to correct safety and sanitary deficiencies present at the time of settlement. Fisher was the last of three defendants to be sentenced in this investigation. The relocation supervisor received probation after pleading guilty and testifying against her former director. The director is currently serving a 27-month term of incarceration and was ordered to pay \$10,000 in restitution. This investigation was conducted jointly by the FBI, IRS and OIG.

Following an OIG audit of Safety Net, a homeless provider in **Baton Rouge, LA**, a subsequent investigation of Lil Barrow-Veal, executive director of Safety Net, found her guilty on 14 counts of mail fraud, 9 counts of false statements, 6 counts of embezzlement, 1 count of making a false statement to a financial institution, 3 counts of money laundering, 1 count of engaging in monetary transactions in property derived from unlawful activity, and 2 counts of income tax evasion. The indictment and subsequent conviction were the result of a joint investigation by the FBI, OIG, and Louisiana State Police. The investigation found that Barrow-Veal leased, rented, and sold properties leased from HUD under the Homeless Initiative Program to unqualified individuals. She made false statements which led others to make false statements, and converted several properties for her personal use. In addition, she failed to file federal income tax returns in 1994 and 1995. No date has been set for sentencing.

Gregory Keith Mitchell, former president of the Community Center for Creative Non-Violence in **Washington, DC**, pled guilty in U.S. District Court to stealing HUD funds from the homeless shelter. OIG initiated an audit and investigation following a complaint to the OIG Hotline. OIG executed federal search warrants in October 1996 at the shelter and at Mitchell's private residence/vehicle. Mitchell pled guilty to stealing \$65,000 in HUD funds and making a false statement to HUD. He used funds for personal items such as clothing, restaurants, entertainment, personal travel and legal expenses. Mitchell, who faces up to 15 years in prison, will be sentenced on May 12.

General contractor William Engels pled guilty to submitting a false statement to HUD as part of a bid rigging scheme in the City of **Hannibal, MO's** Home Program. Engels pled guilty to submitting fraudulently high bids by having his own employees bid on the HUD grants. He furthered his scheme by double pledging these fraudulently obtained block grant contracts for loans at different banks in Illinois. Sentencing is scheduled for May 1998. This



was a joint investigation by the FBI and OIG.

Pearlie Hamilton, former mayor of **Natchez, LA**, was sentenced for theft of government funds by improperly approving applications under the HOME Program. Hamilton approved relatives who would otherwise have been ineligible to receive grant benefits. She was sentenced to 12 months in prison and ordered to pay \$32,867 in restitution to HUD and a \$100 special assessment. This was a joint investigation by the FBI and OIG.

In **Philadelphia, PA**, contractor Kenneth Dixon entered into an agreement with the U.S. Attorney to pay \$15,000 in lieu of a civil suit under the False Claims Act. An investigation by the OIG Offices of Investigation and Audit found that Dixon submitted false billings to the Montgomery County Housing Services (MCHS) Department for home renovation work that was either never performed or performed in a substandard manner. The MCHS renovation program was funded by HUD Community Development Block Grants. This is the second MCHS contractor to settle a pending suit in this matter.

Another MCHS contractor, Richard Sparks, agreed to pay the U.S. Attorney's Office a \$5,000 fine and penalty pursuant to a civil prosecutive settlement agreement. Sparks violated the False Claims Act by submitting false billing information to the MCHS for low- and moderate-income housing renovation work that was never performed or was performed in a substandard manner.

## Public and Indian Housing Programs

Public and Indian Housing Programs are designed to assist low- and very low-income families in obtaining decent, safe and sanitary housing. With these program funds, local public housing agencies and Indian housing authorities develop, own and operate public housing developments. In addition to financial assistance, HUD furnishes technical assistance in managing these developments. During this reporting period, the OIG discovered instances of false statements made by contractors.

William Harley, a roofing contractor for the **Philadelphia, PA** Housing Authority (PHA), pled guilty to filing false payrolls and underpaying his employees on two federally funded Comprehensive Improvement Assistance Program (CIAP) contracts, and filing a false certification that roofing work had been completed when in fact it had not. This false certification enabled Harley to obtain at least \$13,500 in CIAP funds to which he was not entitled. An investigation by the HUD and PHA OIGs and the U.S. Department of Labor disclosed that Harley's employees were underpaid by almost \$230,000 over a 2-year period, in violation of the Davis-Bacon Act.

The president and vice president of a construction company, who submitted false claims to the **Virgin Islands** Housing Authority, were indicted by a federal grand jury. The Authority terminated several contracts they had with the contractors, because the contractors could not obtain the required bonding. The contractors then submitted claims for over \$3 million in compensation for the actual expenses they claimed to have incurred for the terminated contracts they had with the Authority. The contractors created false invoices to support these claims. The investigation was conducted by OIG and the Postal Inspection Service.

## Multifamily Housing Programs



In addition to multifamily housing projects with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. During this reporting period, OIG investigations uncovered two instances of bribery.

Bruce Mullin, a former multifamily asset manager in the HUD **New Orleans, LA** Office, pled guilty to bribery. The plea followed a joint investigation by the FBI, OIG, and Louisiana State Police which disclosed that Mullin solicited a number of multifamily project owners for loans, cash, and other things of value in exchange for satisfactory property inspections, special rent increases, Drug Elimination Grants, and other technical assistance. Mullin accepted a \$20,000 loan and \$13,000 in cash. Sentencing has not yet been scheduled.

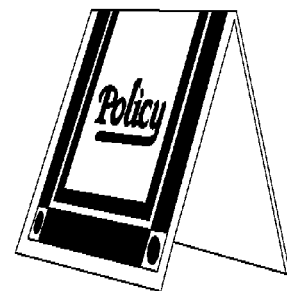
The former manager of a cooperative in **Baltimore, MD**, was charged with one count of federal program bribery. The manager allegedly received \$15,000 in payments from prospective residents in return for their being able to bypass the waiting list. The manager agreed to enter into a plea agreement. This investigation was conducted by the FBI and OIG.





# Legislation, Regulations and Other Directives

Reviewing legislation, regulations and other policy directives is a critical part of the OIG's responsibilities under the Inspector General Act. This responsibility is particularly important given the dynamics of HUD's changing program and administrative environments. During the recently completed 6-month period, we reviewed 124 legislative bills, regulations, and other policy and funding directives. This Chapter describes some of our concerns and recommendations.



# Legislation

## ***Native American Housing Assistance and Self-Determination Act***

The Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) was signed into law on October 26, 1996. The Act provided for consolidating HUD's Indian housing assistance into a formula-based housing block grant program.

On March 12, 1997, the HUD Inspector General testified before the Senate Committee on Indian Affairs and the Committee on Banking, Housing, and Urban Affairs, concerning our office's review and investigation of reports by *The Seattle Times* of alleged fraud, abuse and mismanagement in HUD's Indian housing programs. (Also refer to Chapter 3 under Public and Indian Housing Programs.) In conjunction with her testimony, the Inspector General expressed strong support for the objectives of NAHASDA, but testified that some of its provisions could be further enhanced to ensure even greater accountability in the use of Indian housing funds.

On April 18, 1997, we submitted 11 legislative proposals to the Chairman, Committee on Indian Affairs, which were designed to clarify and enhance certain provisions in NAHASDA. These proposals were discussed in our last Semiannual Report to the Congress for the period ending September 30, 1997. All 11 legislative proposals were subsequently addressed in bills proposed by the Congress.

In March of this year, we notified the staff of the Senate Committee on Indian Affairs of additional areas of NAHASDA that warrant Committee attention, including our position that NAHASDA should: contain a "citizen participation" requirement similar to that contained in other grant programs to ensure tribal member participation in the development of Indian Housing Plans; require that tribal recipients make their housing plans, policies, waiting lists, audit reports, annual performance reports, and performance agreements publicly available; and further emphasize HUD's review of tribal recipients' administrative capacity when allocating NAHASDA funds.

We will continue to work with the Committee to ensure enactment of our proposed NAHASDA amendments.

## ***HUD 2020 Program Repeal and Streamlining Act***

HUD proposed legislation on March 12, 1998, to eliminate 81 of HUD's programs. We concurred with this legislation, which is in part a response to criticism from both the Congress and our office concerning the accelerating growth in HUD's programs and activities. In December 1994, we issued a report to then Secretary Cisneros in which we identified approximately 240 discrete HUD programs and related activities. A June 1997 update of our December 1994 report showed that the number programs and activities had increased to over 300. This volume of activity places excessive demand on HUD's diminishing resources and causes the Department to lose sight of its basic mission and objectives.

HUD's 2020 legislative proposal is a good start, but further initiatives are needed to terminate or consolidate HUD's programs. The current proposal deals only with unfunded or dormant programs — programs which have little or no impact on HUD's diminished staff resources. Moreover, new HUD programs are still being initiated each year. HUD needs to work closely with the Office of Management and Budget and the Congress to achieve further program termination, consolidation, and streamlining.

## ***OIG Legislative Proposals***



The OIG submitted legislative proposals to the Department in March 1998, many of which were initially submitted to HUD and the Congress in February 1997. The 21 proposals focus on 5 areas:

- Improving program enforcement.
- Enhancing Operation Safe Home.
- Increasing accountability in federal assistance awards.
- Reforming wasteful or ineffective features in certain programs.
- Increasing the effectiveness of the “One Strike and You’re Out” policy.

Details of most of the proposals were discussed in our Semiannual Report for the period ending March 31, 1997. Additionally, we submitted one new legislative proposal to terminate the Title I Program. The Title I Program provides loans for repair and improvement of existing structures and purchases of manufactured homes. OIG audits of the program over the years have shown significant fraud and abuse in the program. The program serves only a small number of individuals, because private sector funding is available for the type of financing supported by the program. Further, other HUD programs that are less risky to the government better target low-income persons’ housing rehabilitation needs. The OIG is proposing elimination of the program based on the small number of individuals served, HUD’s inability to effectively monitor the program, the availability of private sector financing, and because this risky program is not justifiable or necessary in today’s market place.

## Regulations

### ***Uniform Physical Condition Standards and Physical Inspection Requirements for Certain UD Housing — Proposed Rule***

As part of HUD’s 2020 Management Reform Plan, this proposed rule would establish uniform physical condition standards and physical inspection requirements for Section 8 project-based housing, public housing, and other HUD housing. The rule provides for annual inspections by HUD of public and other assisted housing to determine if housing is decent, safe, sanitary, and in good repair.

We questioned the rationale for excluding HUD’s Section 8 Tenant-Based Assistance Program from coverage under the rule because it would create two disparate sets of housing standards and inspection requirements in the Section 8 Program. This could lead to inequities and inconsistencies in assessing the quality of assisted housing. We also commented that the rule was too general and provided only limited information on HUD’s proposed physical condition standards; did not explain how inspection results were to be processed and evaluated; and gave public housing agencies (PHAs) the option of using their own protocol for inspecting public housing units, which could result in HUD and PHAs’ arriving at varying and inconsistent inspection results.

As of the close of this semiannual reporting period, HUD had not responded to our comments and concerns, and had not published its proposed rule in the Federal Register.

### ***Section 8 Management Assessment Program (SEMAP) — Final Rule***

This final rule establishes the SEMAP, which is designed to measure the performance of PHAs in administering key areas of the Section 8 Tenant-Based Assistance Program.

We commented that, contrary to HUD’s 2020 Management Reform Plan of managing by function, the rule does not include the Section 8 Project-Based Program. We also raised concerns about the assessments and measurements



being proposed. The rule focuses on measuring compliance with regulatory requirements without attempting to assess the dollar magnitude or seriousness of PHAs' noncompliance or the quality or impact of their performance. Many of SEMAP's performance indicators rely on HUD Multifamily Tenant Characteristics System data to verify a PHA's performance despite the fact that the accuracy of such data has been known to be highly suspect. Finally, we noted that performance indicators were weak because there were no provisions for independent verifications or measuring quality and timeliness.

We met with program officials in March 1998 to discuss our comments. As of the close of the semiannual reporting period, HUD had not yet published its final rule or provided us a copy of its revised final rule.

### ***Disposition of Single Family Property***

This proposed rule would allow HUD an alternative property disposition method for single family foreclosed properties by allowing HUD to enter into agreements with an individual, partnership, corporation or other legal entity for the right to purchase multiple properties that HUD may acquire through foreclosure in the future. This property disposition alternative is called "Privatization of the Real Estate Owned (REO)" function. HUD currently sells properties individually after foreclosure to individuals on a property by property basis.

We raised concerns as to whether privatization of the REO function best serves the interests of the government. Before HUD enters into any privatization contracts, HUD needs assurances that:

- Necessary analysis was performed to show whether the REO function should be performed under contract with commercial sources or in-house using government facilities and personnel.
- Contractors have the same goals as HUD, i.e., returning the vast majority of properties to owner/occupant mortgagors.
- Controls over monitoring responsibilities of contractors and HUD are defined.

As of the close of the semiannual reporting period, this proposed rule was pending.

### ***Single Family Risk Sharing***

The OIG nonconcurred on a proposed interim rule that would implement two new programs: (1) a Single Family Mortgage Insurance Risk Sharing Program for state and local housing finance agencies (HFAs); and (2) a Single Family Mortgage Insurance Risk Sharing Demonstration Program for private mortgage insurance companies (PMIs). At the close of the last semiannual period, the OIG's nonconcurrence remained unresolved and was referred to the former Deputy Secretary for decision. Our concerns with the rule included:

- Implementation of the new programs without the benefit of public comment.
- Conflict with HUD's 2020 Management Reform Plan by increasing the number of programs and reducing monitoring.
- Implementation without defining the Government National Mortgage Association's role in the process.
- Implementation of the program for PMIs nationwide rather than limiting implementation to two regions.
- Insufficient enforcement tools to terminate the program.
- Authorization for HFAs to insure mortgages that would not be insurable under existing Single Family Mortgage Insurance Programs.

On February 12, 1998, the former Deputy Secretary agreed that the rule should be first published as a proposed rule to allow the public to voice their comments. HUD has not yet published the revised proposed interim rule.

### ***Risk-Sharing for Hospitals***



The OIG nonconcurred on a final rule that would implement a risk-sharing program to finance the new construction or rehabilitation of hospitals or improvements of hospitals under existing mortgage insurance authority. At the close of the last semiannual reporting period, the OIG's nonconcurrence remained unresolved and was referred to the former Deputy Secretary for decision. We were concerned that the rule:

- Did not provide sufficient detail on the basic requirements of the program in many critical areas.
- Did not establish program provisions pursuant to regulations as required by authorizing legislation.
- Did not incorporate program monitoring or mortgagee compliance requirements as provided for in the applicable authorizing statute for the coinsurance of mortgages.

In January 1998, the former Deputy Secretary agreed with OIG's position and instructed the Assistant Secretary for Housing to revise the rule to provide additional details. HUD has not yet revised the final rule.

## Notices of Funding Availability (NOFAs)

During this semiannual reporting period, HUD began a process of combining like NOFA's into a single super NOFA. About \$3 billion will eventually be awarded through three consolidated super NOFAs. This new NOFA process constitutes a more streamlined way of making HUD program funds available nationally, as HUD previously issued as many as 40 different NOFAs annually.

### ***Consolidated Notice of Funding Availability for Housing and Community Development Programs***

This NOFA was the first of three consolidated super NOFAs proposed by HUD. The March draft NOFA announced the availability of approximately \$1.3 billion in HUD program funds covering 19 HUD housing and community development programs. The funds were to be awarded on a competitive basis to state and local governments, PHAS, and nonprofit and other organizations. HUD's final consolidated NOFA was published in the Federal Register on March 31, 1998. Some of our comments on HUD's draft NOFA are shown below.

#### ➤ General Comments

We generally questioned the format of the draft NOFA because it varied considerably from program to program with respect to the extent of program information, the description of rating factors, and the process for reviewing and selecting applications for funding. In response, although HUD made some changes to its final consolidated NOFA to achieve greater consistency among program areas, numerous inconsistencies remain.

#### ➤ Revitalization of Severely Distressed Public Housing (HOPE VI)

We commented that the NOFA failed to state that HOPE VI funds cannot be used for any purpose not provided for in HUD's Appropriations Acts for FYs 1993 through 1998. This provision was included in HUD's FY 1998 Appropriations Act. HUD agreed with our comment and revised the NOFA accordingly.

#### ➤ Public Housing Drug Elimination Program

We commented that the draft NOFA's range of eligible drug elimination and reduction activities (non-law enforcement/security related) was too all-encompassing, and possibly contrary to statutory intent. We suggested that while such activities as child care, employment training, youth sports activities, and educational scholarships were laudable endeavors, there were other HUD, federal, state, and local programs that should be used in tandem with the Public Housing Drug Elimination Program to fund these types of activities. While HUD made some revisions to the



NOFA to better clarify what types of drug prevention/reduction activities were eligible, the revisions stopped short of limiting such activities to specifically defined areas.

We also indicated that the NOFA's application rating process did not adequately take into account an applicant's past performance and current capacity to successfully carry out a drug elimination program. While HUD did not assign additional points for the capacity rating factor as we had requested, it made other changes to the description of this rating factor to enhance its content, focus and clarity.

➤ **New Approach Anti-Drug Program**

In view of the limited funds available for this program (\$20 million), we commented that there should be some limitations in the NOFA on the amount of grant funds that can be provided to any single applicant. HUD agreed and revised the NOFA to establish maximum grant limitations.

We also questioned HUD's decision to deny funding to entities that received funding in FY 1997, since it was our belief that funding should be awarded based on "highest priority need," regardless of prior funding. In response, HUD eliminated all references in the NOFA indicating that FY 1997 grant awardees were not eligible for funding under the 1998 NOFA.

In addition, we questioned HUD's decision to define eligible project areas as entire communities in some cases rather than the targeted housing projects and their immediate surrounding neighborhoods. We also noted that the NOFA provided little or no guidance as to how applicants were to justify jurisdiction-wide project designations. HUD did not revise the NOFA to address our concerns because it believed that the New Approach Anti-Drug Program warranted a scope much different from that of the Public Housing Drug Elimination Program.

➤ **Drug Elimination Grants for Multifamily Low-Income Housing**

We questioned HUD's rationale for considering certain costs ineligible since the underlying statute authorized such costs. HUD agreed that the costs in question were statutorily eligible, but stated that the Department was not required to fund such activities each year. HUD staff offered no explanation as to why the costs were not being funded.

In addition, one of the draft NOFA's rating factors called for assessing the capacity and experience of the applicant based on the results of HUD's most recent "Management Review." We commented that it was impractical to address this rating factor because the NOFA failed to describe the scope and nature of HUD's Management Review. While HUD did not elaborate on the nature and scope of its Management Review, it revised the NOFA to take into account other sources of information that would be used to evaluate applicants.

➤ **Fair Housing Initiatives Program**

We commented that the draft NOFA failed to address certain requirements found in HUD's FY 1998 Appropriations Act relating to the Fair Housing Act. In response, HUD revised the NOFA to reflect these statutory requirements.

We also recommended that the draft NOFA indicate the procedures and criteria to be used by HUD in making funding selections outside the normal rating and ranking process in order to achieve geographical diversity in the awarding of HUD program funds. In response, HUD revised the NOFA to further explain its process for funding applications to achieve greater geographical diversity.

➤ **Youth Sports Program**

In view of HUD's recent staff downsizing and need for program consolidation, we questioned the Department's decision to fund this program separately. We noted that HUD's FY 1998 Appropriations Act gave HUD the option of funding youth sports as a separate program. We also concluded that PHAS could easily fund youth sports activities under other programs if they chose to do so. HUD agreed with our concern and deleted the Youth Sports Program from the NOFA. It further revised the NOFA to make youth sports activities an eligible cost activity under the Public Housing Drug Elimination Program.





➤ Historical Black Colleges and Universities Program

We commented that the draft NOFA's application rating criteria did not address the program's national objective, contrary to HUD regulations. We also commented that the NOFA's objective of "affirmatively furthering fair housing" was addressed as a separate application rating factor and was also addressed under another rating factor, which thus appeared excessive or duplicative. HUD revised the NOFA to address both of our concerns.

### ***FY 1998 NOFA for the Demolition of Severely Distressed Public Housing (HOPE VI Demolition Program)***

We reviewed this draft NOFA in March 1998. The NOFA announces the availability of up to \$60 million in FY 1998 for the demolition of severely distressed public housing.

The draft NOFA referred to the demolition of both "severely distressed" and "obsolete" public housing, but failed to define these terms. These terms have had different meanings over the years. HUD's FY 1998 Appropriations Act makes reference only to the demolition of "obsolete" public housing. We also questioned HUD's establishment of a separate earmarking of funds for HOPE VI demolition as well as its establishment of a "HOPE VI Demolition Program," since HUD's FY 1998 Appropriations Act did not contain any explicit language authorizing such initiatives.

The draft NOFA was unclear as to whether units included in a PHA's approved demolition application had to comply with any criteria established under the HOPE VI Program, or if the units could be considered "obsolete" under other program criteria. In addition, the NOFA's application evaluation and selection criteria were weak, since the underlying review process did not appear to tie the rating and selection of applications for funding to any specific HOPE VI Program goals and objectives. At a minimum, it would be appropriate to consider the local and national impact of any proposed demolition as part of HUD's funding award process.

Lastly, the NOFA should state that none of the funds provided under the NOFA are to be used directly or indirectly to settle litigation or pay judgments, pursuant to HUD's FY 1998 Appropriations Act.

As of the close of the semiannual reporting period, HUD had not yet reported back to us on its review and disposition of our concerns.

## HUD Notices

### ***NAHASDA Interim Funding for Tribes and Tribally Designated Housing Entities***

The Native American Housing Assistance and Self-Determination Act (NAHASDA) statute was enacted on October 26, 1996, and took effect on October 1, 1997. NAHASDA requires HUD to make block grants on behalf of Indian tribes to carry out affordable housing activities. However, HUD experienced delays in publishing NAHASDA's final rule, which was being developed through the negotiated rulemaking process. In an effort to stem the adverse effects of delaying the distribution of NAHASDA administrative funds to tribal entities, the Department drafted a Notice in January 1998. The Notice provides instructions for processing advances of NAHASDA funds to ensure the uninterrupted delivery of administrative services by Indian tribes.

We nonconcurred in the initial draft of the Notice because it did not state whether the Secretary waived the Act's requirement that funds be distributed to tribes only if they have a HUD approved Indian Housing Plan (IHP). At the time of the Notice's clearance, the Department had not approved any IHPs. If the Secretary was opting to exercise his waiver authority, we recommended that HUD comply with section 106 of the HUD Reform Act of 1989, which requires that waivers be in writing, that the grounds for approval be specified, and that the public be notified by publication in the Federal Register.

In addition, the advance of NAHASDA funds to Indian tribes may not be appropriate because the Department has



not implemented the statutory requirement that HUD determine, by regulation, the percentage of grant funds that tribes can use for reasonable administrative and planning expenses. Further, the Notice proposed to require tribes to repay advanced funds, if HUD did not approve their IHP. This does not provide for adequate protection of HUD's interests. Consequently, we recommended that the Notice provide for offsetting a tribe's remaining 1998 allocation or its 1999 allocation for any funds repayable to HUD as a result of HUD's non-approval of the tribe's IHP.

HUD revised the Notice to reflect our concerns and issued it on March 12, 1998. It later published the Notice in the Federal Register on April 15, 1998.

## Other Directives

### ***Contract Administration Services for Section 8 Project-Based Housing Assistance Payments Contracts — RFP***

Under this Request for Proposal (RFP), the Department is requesting proposals to provide contract administration services for Section 8 project-based housing assistance payments (HAP) contracts currently administered by HUD staff. According to the RFP, as many as 20,000 properties may be covered in response to the RFP. Contract awardees will assume HUD's current oversight responsibilities for assigned properties, under the guidance of a Government Technical Representative and one or more Government Technical Monitor. Each selected contract administrator will then enter into an Annual Contributions Contract (ACC) with HUD and assume or enter into HAP contracts with property owners.

We question whether HUD has the legal authority to contract for Section 8 administration as described in the RFP. The RFP included eligibility criteria for prospective contract administrators that did not appear to meet the intent of the law. We recommended that the RFP's eligibility definition be compatible with HUD's regulatory definition of a "public housing agency." We also recommended that, prior to entering into any ACCs pursuant to the RFP, HUD obtain explicit statutory authorization or, at a minimum, a legal opinion indicating that the Department is authorized to transfer its responsibilities or those of a competent public housing agency to a non-local public housing agency, pursuant to section 8(b)(1) of the United States Housing Act of 1937.

We also expressed concern that HUD had not provided adequate cost justification for contracting out its Section 8 contract administration functions. We expressed further concern that the RFP did not necessarily provide for HUD's review of the potential cost and effectiveness of all submitted proposals, but rather emphasized the awarding of contracts to entities covering the largest geographical areas. As a result, proposals that are potentially more cost effective and appropriate may be denied consideration by HUD.

At the close of the semiannual reporting period, HUD had not yet issued its RFP.

### ***FY 1998 Portfolio Reengineering Guidelines***

OIG nonconcurred on the proposed notice of guidelines for the FY 1998 Portfolio Reengineering Transition Program. The 1998 Transition Program is significant in that it provides an opportunity to better understand how the permanent legislation will work when it becomes effective in 1999. Demonstration approaches, underwriting, and rent increases were the areas of our concern.

The guidelines permit mortgages with above market interest rates to stay in place, increasing the cost of the restructuring to HUD. Instead, mortgages with above market interest rates should be modified or replaced with mortgages reflecting lower market interest rates. The guidelines did not provide adequate incentives for owners to maintain their projects in habitable condition and control operating costs. The guidelines did not require that the





owner have any equity or make any contributions in connection with the restructuring or additional rehabilitation loans or grants by HUD for the project. Without incentives, the burden falls upon HUD to ensure compliance and efficiency. Requirements for equity or owner guarantees on restructured debt should be mandatory, if not for all, at least for projects where HUD is taking on additional risk in the project with credit enhancements or providing additional funding.

Budget-based rents are authorized with a general limit of 120 percent of fair market rents, but allow up to 5 percent of all units subject to restructured mortgages within the fiscal year to exceed the limit. This would allow rents to exceed the expiring contract rents, contrary to one of the stated purposes of the statute of “reducing the long-term costs of project-based assistance.” Approving budget-based rents in excess of expiring contract rents should not be permitted. Also, the adjustment of Section 8 rents throughout the years of affordability of these projects is critical to keeping rents at market levels, preventing mortgage defaults and insurance claims, and reducing the costs of Section 8 subsidies. The guidelines for restructuring do not address the method by which rents will be adjusted after restructuring.

The Office of Housing addressed our concerns with the exception of the issues on rent increases and owner contributions. We raised the same issues on rent increases and owner equity contributions when reviewing the FY 1997 Reengineering Guidelines, which eventually were forwarded to the former Deputy Secretary for a decision. Our nonconcurrence was overruled by the former Deputy Secretary essentially because he deemed it was too late to make the changes. However, Office of Housing staff had promised the former Deputy Secretary that the issue of rent increases would be subsequently addressed in further instructions to the field. One year later, the issues had not been addressed in the 1998 guidelines. So once again, our nonconcurrence was raised to the former Deputy Secretary for resolution. The Acting Deputy Secretary agreed in concept with our concerns and instructed the Office of Housing to use the 1998 Transition Program as a demonstration for how rent increases and owner contributions can be implemented in the permanent reengineering program.

### ***Mortgagee Letter — Termination of Planned Unit Development Approval Procedures***

This mortgagee letter would eliminate HUD’s approval of planned unit developments (PUDs) as a prerequisite to insuring a residential dwelling in the development. PUDs are developments that have a mandatory homeowners association, usually with common areas owned by the homeowners association to which resident landowners are required to belong and pay lien supported maintenance assessments. Part of the value of each individual property includes the benefits accruing from the commonly owned areas and facilities of PUDs.

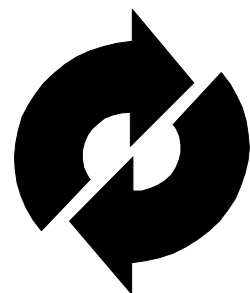
Currently, approval of the PUDs requires a legal certification. The certification protects against a developer’s conveying common areas to others or mortgaging common areas after individuals have purchased their units. OIG nonconcurred in this mortgagee letter until HUD determined whether all states have legislated appropriate safeguards for PUDs. We agree that if states have legislated substantially similar approval requirements, there is no reason for HUD’s approval process. However, a wholesale termination is not appropriate unless all states have taken action. Without the safeguards provided by the approval process, there is potential risk to FHA of over insuring mortgages.

At the close of this semiannual reporting period, a revised mortgagee letter had not been issued.



# Audit Resolution

Audit resolution is the process where OIG and HUD management agree to needed changes and timelines for action in resolving audit recommendations. Through this process, we hope to see measurable improvements in HUD programs and operations. The overall responsibility for assuring that the agreed upon changes are implemented rests with HUD managers. This Chapter describes some of the more significant issues where actions on audits have been delayed, or actions were prematurely reported as complete. In addition to this Chapter on audit resolution, see Appendix 2, Tables A and B.



## Delayed Actions

### ***City of New York Department of Housing Preservation and Development***

*Issued January 29, 1993.* Our report recommended repayment of more than \$22 million of ineligible expenditures to the city's Community Development Block Grant (CDBG) Program. The city agreed to repay \$4.5 million over 5 years and has made its first payment of \$900,900.

The remaining \$17 million involves the inappropriate use of CDBG funds to pay for liability insurance for employees involved in the city's property management program. The Office of Community Planning and Development (CPD) in Headquarters determined it was appropriate to pay the insurance, but hired a consultant to review the reasonableness of the costs. The consultant's report, submitted to CPD in September 1997, concluded that the insurance expenditures were reasonable, but raised two areas of concern. First, it questioned an apparent \$80,000 overpayment of a short-rate cancellation penalty. Second, it reported that \$1.2 million in premiums could have been saved by recomputing the insurance policies at renewal. CPD provided the report to the city for its review and response. On February 19, 1998, the city responded to CPD raising concerns with the consultant's analysis. CPD is still in the process of reviewing the issues with the consultant. (Report No. 93-NY-241-1002)

### ***City of Baltimore, CDBG Program***

*Issued March 4, 1992.* Our audit disclosed \$6.78 million of ineligible and unsupported costs. On April 1, 1998, representatives of the city signed a settlement agreement requiring the city to repay \$3.16 million to its CDBG Program account over a 10-year period. The city also must devise a system to prevent future problems such as those disclosed in our report. (Report No. 92-PH-241-1003)

### ***Housing Authority of the City of Las Vegas***

*Issued February 23, 1996.* The Housing Authority of the City of Las Vegas (HALV) used federally assisted low-rent funds to support other non-assisted housing projects. We first reported this practice more than 8 years ago. In 1989, we reported that the HALV had misused over \$6 million. Three years later, in 1992, we showed that the HALV continued to improperly use federal funds, increasing amounts due to over \$6.5 million. Seven years later, in 1996, we found that the improper practices continued, increasing the ineligible expenditures to over \$7 million.

In February 1997, HUD management and the HALV negotiated a \$7.2 million repayment plan. As of January 1998, \$2.7 million due HUD had been repaid with the proceeds from sales of real estate assets, but \$4.5 million remained to be repaid. In November 1997, HUD authorized a revision to the February 1997 repayment agreement, excluding the sale of a senior citizen complex. Execution of this agreement is still awaiting the HALV's finalization of pending real estate sales to determine the additional amounts necessary to fund the plan. It is expected the repayment plan will take 16 years. (Report Nos. 89-SF-209-1004, 93-SF-209-1801, and 96-SF-204-1003)

### ***Audit of FHA's FY 1991 Financial Statements***

*Issued March 27, 1992.* The audit of FHA's FY 1991 financial statements originally reported that FHA needed to improve its accounting and financial management systems. Specifically, the recommendations required FHA to implement a systems integration strategy that would address its accounting and reporting needs. The most recent audit of FHA's FY 1997 financial statements continued to report the same problems.

FHA, in its latest action plan, states that it has prioritized systems work to maximize the use of limited resources



to target those business areas with the most critical needs. As part of the Department's financial systems integration plan, a new general ledger system that is to comply with the governmentwide standard general ledger requirements is to be implemented by September 1998. A reliable general ledger supported by integrated "feeder" systems is basic to any reporting by FHA. Other elements of FHA's system upgrades are to be completed in FY 1999. While actions by FHA indicate that they are taking a more proactive approach to this issue, resolution of this material weakness is long overdue. (Report No. 92-TS-119/129-0007)

### ***Audits of HUD's FY 1991 through FY 1997 Financial Statements***

*First issued June 30, 1992.* HUD has been preparing financial statements under the requirements of the Chief Financial Officers Act for 7 fiscal years, beginning with FY 1991. Various internal control weaknesses have been reported in these audits. In large part, the most recent (FY 1997) audit results are consistent with results from prior years. HUD has been taking actions to address the weaknesses reported, and in some instances has made progress in correcting them. Although there has been some progress, weaknesses continue with respect to the need to: (1) upgrade financial management systems, particularly those impacting multifamily housing programs; (2) correct resource management shortcomings; (3) ensure that housing subsidies are based on correct tenant income; and (4) more effectively monitor program recipients. Corrective action plans have continued to change over the last 6 years. The Department's newest effort to address the weaknesses is through the HUD 2020 Management Reform Plan. Our concerns with the Reform Plan are discussed in Chapter 1.

### ***FY 1996 HOPE VI Grant Award Process***

*Issued October 20, 1997.* HUD awarded \$381 million of FY 1996 HOPE VI funds to 37 ineligible applicants. The applicants were ineligible because they did not demonstrate compliance with the eligibility requirements, as specified in the HOPE VI Notice of Funding Availability (NOFA). HUD determined eligibility for the 37 applicants by revising the criteria for determining eligibility after the deadline date for submission of the applications, not properly considering NOFA eligibility requirements, or enhancing applications by considering information not provided by applicants. We concluded HUD's funding of applicants that did not demonstrate compliance with the NOFA requirements did not comply with Section 102 of the HUD Reform Act. Included in our report was a recommendation that the Department cancel the grant awarded to the Baltimore City Housing Authority. We also recommended that grant agreements with the other housing authorities not meeting eligibility criteria be conditioned on the authorities' completing specific activities, as required, to demonstrate compliance with NOFA eligibility requirements.

Because of continued disagreement with the Office of Public and Indian Housing on cancellation of the award to the Baltimore City Housing Authority, that matter was referred to the Acting Deputy Secretary on March 2, 1998. With regard to the need for the other authorities to demonstrate compliance with NOFA eligibility requirements, we have agreed with the Office of Public and Indian Housing's proposed actions. (Also refer to Chapter 3 under Public and Indian Housing Programs.) (Report No. 98-FO-101-0001)

### ***City of East Cleveland CDBG Program***

*Issued October 17, 1995.* The city's housing rehabilitation program did not achieve its primary objective of correcting code violations. As a result, some homeowners lived in substandard homes where violations posed a danger to their health and safety. Five months after the audit, management agreed that defective and duplicative work totaling over \$55,000 and ineligible and unsupported costs of \$42,657 needed to be repaid. Further, the city could not document that activities performed by subrecipients and other city departments during 1993 and 1994, totaling over \$360,000, were eligible activities under the program. HUD management also agreed that this needed to be supported or repaid.



Since issuance of the audit report, city and HUD staff have been working to resolve the issues raised in the report. Thus far, 17 procedural recommendations have been resolved. In addition, the city has corrected “incomplete and defective” work on 23 of the 27 properties identified in the audit. Corrective work is expected to be completed on the remaining 4 properties by July 1, 1998. On December 30, 1997, the city passed an ordinance agreeing to reimburse the program for \$27,128 of the \$42,657 originally identified in the report and provided documentation to support the remaining amounts. However, the \$27,128 has not been paid. The same city ordinance approved a grant reduction of \$55,000 for the defective and duplicative work identified during the audit. HUD staff currently anticipate that the grant reduction will occur by June 1, 1998. HUD is still negotiating with the city in regard to the \$360,000, and has given the city until June 1, 1998, to provide documentation that the activities were eligible. Failure to submit the requested documentation could result in further grant reductions. (Report No. 96-CH-241-1002)

### ***HUD Relationships With Nonprofit Organizations***

## **Referral of Audit Recommendations Because of Disagreement**

*Issued August 8, 1996.* This report found that HUD needs to improve its management controls concerning its relationships with nonprofit organizations. For example, HUD has not developed an inventory of nonprofit organizations with whom it deals and to whom it provides funds, does not require proof and verification of the tax status of nonprofit organizations, and does not have clear procedures for dealing with nonprofit organizations. On January 30, 1997, we referred this report to the former Deputy Secretary, since we did not receive proposed management decisions from lower-level responsible HUD officials. On June 23, 1997, the former Deputy Secretary responded and we agreed on one of the four issues in the report; however, on February 10, 1998, the former Deputy Secretary decided not to submit management decisions for the remaining three recommendations, but recommended HUD continue to review and consider our recommendations as they implement management reforms in grantmaking. Our recommendations remain viable and must be addressed as HUD undergoes reform. (Report No. 96-HQ-176-0802)

### ***Audits of Bond Refundings of Section 8 Projects***

*Issued October 30, 1992, and April 30, 1993.* In our Semiannual Report for the period ending March 31, 1997, we identified these as two reports for which we reopened seven recommendations because corrective actions were not implemented. The recommendations in these audit reports provided HUD opportunities for saving Section 8 subsidies of approximately \$278 million. We previously reached agreement with management on all but two of the seven recommendations. We do not agree with the former Assistant Secretary for Housing’s proposed course of action on two recommendations.

We reported that two of three State Housing Finance Agencies (HFAs) reviewed had violated regulations by collecting both an administrative fee and an override on the bonds. The administrative fees collected duplicated the compensation allowed under the override. The Office of Housing’s current position is to prevent HFAs from collecting both fees on future deals; however, HFAs will be allowed to continue to collect both fees on previous deals if they request a waiver and justify keeping both fees. We believe that HFAs that violated regulations by collecting both an administrative fee and an override created a valid debt to HUD, and that it would be inappropriate to grant HFAs waivers on the basis that monies obtained by violating regulations are now committed for legitimate purposes. Also, waivers would be unfair to those HFAs that abided by the regulations. We referred this matter to the former



Deputy Secretary on November 19, 1997, and met with him on January 22, 1998. At the meeting, the former Deputy Secretary requested HUD's Office of General Counsel to provide a legal opinion on whether the Office of Housing's action in granting waivers to HFAs violated debt collection statutes. We are still waiting for the legal opinion. (Report Nos. 93-HQ-119-0004 and 93-HQ-119-0013)

### ***Section 203(k) Rehabilitation Mortgage Insurance Program***

*Issued February 6, 1997.* Our nationwide review of the Section 203(k) Program disclosed numerous abuses by investors and an inordinate rate of default on their loans. Because of the serious potential drain on the insurance fund due to these types of loans, we recommended that HUD no longer allow investors to participate in the program. Instead, HUD placed a temporary moratorium on investor participation.

On June 9, 1997, this matter was referred to the former Deputy Secretary and on June 30, 1997, we briefed him on the issues. On February 2, 1998, the former Deputy Secretary decided to maintain the suspension on investor participation, but postponed the decision to permanently ban investors from the program until HUD decides whether to implement a new rehabilitation program. We believe HUD should permanently ban investors from the 203(k) Program just as it has done in other single family programs. (Report No. 97-AT-121-0001)

### ***Memphis Housing Authority***

*Issued January 13, 1997.* The Memphis Housing Authority (MHA) is and has been unable to provide decent, safe, and sanitary housing for its residents. Buildings, grounds, and individual dwelling units are seriously deteriorated and ineffective maintenance has been a long-standing problem. These conditions are identical to those found in our 1983 audit of MHA (Report No. 83-AT-201-1039). Prior efforts by HUD, audits by OIG, and management reforms at the MHA have not been effective in reversing the trend. We recommended HUD declare the MHA in substantial default and privatize or jointly manage MHA's maintenance and modernization operations.

HUD disagreed with our recommendations. Therefore, on August 1, 1997, we referred the report recommendations to the former Deputy Secretary. On September 11, 1997, the Inspector General met with the former Deputy Secretary and the Assistant Secretary for Public and Indian Housing and reached an agreement. With the exception of the recommendation to declare the MHA in substantial default, the MHA and HUD entered into a performance agreement that provides for contracting out the MHA's maintenance program, addresses improvements needed in the management of the modernization program, and sets goals and objectives, including benchmarks and timelines for improving the management and processes of the MHA. Should the MHA fail to achieve the targets, HUD may declare MHA in substantial default under its Public Housing Program and Section 8 Annual Contributions Contract. OIG reviewed the performance agreement and agreed with the provisions. HUD and the MHA expect to execute the agreement in May 1998. (Report No. 97-AT-201-1001)

### ***Riverside South Apartments***

*Issued February 21, 1997.* The mortgagee of Riverside South Apartments submitted an application for \$356 million of mortgage insurance under Section 220 of the National Housing Act. OIG reviewed the application and concluded that FHA should not take the risk of insuring the proposed mortgage for three reasons. First, only 333 out of the 1,663 units to be developed would have been used for low- and-moderate income housing. Second, immediately following endorsement of the mortgage, nearly one-fourth of the security for the mortgage, which constituted a park and a pier, would have been given to the City of New York. Consequently, in the case of default, a potential significant loss to the FHA insurance fund was a practical certainty. Third, there was a question whether the Congress authorized FHA to insure a park and pier. We recommended that FHA: (1) not bear the risk of insuring the proposed mortgage; (2) immediately place a limit on site not attributable items (parks and piers); and (3) provide better guidance to its field offices on FHA processing procedures.



The mortgagee subsequently withdrew its application, thus effectively resolving the first recommendation. The former Assistant Secretary for Housing-Federal Housing Commissioner disagreed with the other two recommendations. Therefore, on November 19, 1997, we referred the disagreement to the former Deputy Secretary. The former Deputy Secretary's February 12, 1998 response to the OIG provided that, in view of the substantial effort that had gone into reviewing and restructuring the way HUD does business in multifamily housing, this matter should be left to the discretion of the Assistant Secretary as part of implementing the new structure. In our opinion, the former Deputy Secretary did not address the issue pertaining to how much insurance FHA should allow for items such as parks.

As mentioned above, the mortgagee withdrew its application for the \$356 million mortgage. However, in August 1997, a new application was submitted to FHA that drastically reduced the project's size and mortgage amount, and included only the value of the park, and not the pier, as part of the mortgage. The request for mortgage insurance was reduced to \$180 million. We reviewed this application and issued a second report on December 18, 1997 (Report No. 98-NY-112-0802). Our review of the revised application resulted in the same concerns that we raised in our first report about insuring the park. We recommended that the FHA seek a legal opinion to determine if the Congress intended for FHA to insure mortgages that included the value of a park as an allowable amenity when it passed Section 220 of the National Housing Act.

On April 3, 1998, HUD's Office of General Counsel issued a legal opinion stating that a loan insured under Section 220 could include non-dwelling facilities such as a park, provided it was consistent with an urban renewal plan or the locally developed strategy for neighborhood improvement, conservation or preservation. Additionally, the project must be predominantly residential, non-dwelling facilities such as parks that are included in the mortgage must contribute to the economic feasibility of the project, and the Secretary must give due consideration to the possible effect of the project on other business enterprises in the community. OIG reviewed the legal opinion and wrote a memorandum to the former Assistant Secretary for Housing stating that the park is more of a liability, as opposed to being necessary to the economic success of the project, inasmuch as project funds must be provided to maintain the park. We suggested that the former Assistant Secretary review this issue very carefully and not allow the value of the park to be included as part of the mortgage. (Report Nos. 97-NY-112-0802 and 98-NY-112-0802)

### ***Beaumont Fair Housing and Public Housing Offices***

*Issued June 3, 1997.* We audited the Beaumont Fair Housing and Public Housing Offices to determine if the offices were effectively accomplishing their mission and had the necessary funding to carry out court ordered requirements. We found that the Beaumont Offices are not achieving their mission and recommended that HUD initiate action to close the offices and transfer their duties and functions to the Fort Worth and/or Houston Offices. On January 16, 1998, the Assistant Secretary for Fair Housing and Equal Opportunity responded to the report and outlined a management reform plan for the Beaumont Office. She requested our concurrence on the reform plan.

While OIG was reviewing the management reform plan, on January 21, 1998, the former Deputy Secretary approved the plan. OIG expressed its disagreement with the plan and met with the Assistant Secretary on March 2, 1998. At the meeting, the Assistant Secretary asked her staff to justify to her why she should keep the Beaumont Office open. We are still waiting for a response from the Assistant Secretary. (Report No. 97-FW-174-0001)

### ***San Diego Housing Commission, Limited Review of Contract Rents — Section 8 Housing Assistance Payments Program***

*Issued July 29, 1997.* Since 1994, the San Diego Housing Commission (SDHC) has approved some Section 8 contract rents that were too high and has given annual adjustments to previously established rents without determining that the adjustments were warranted. As a result, the SDHC paid more in Section 8 subsidies to some owners than what was allowed by HUD regulations. We recommended that the SDHC determine the total overpayments made since January 1, 1994, to the date that the overpayments were corrected and repay HUD from



non-federal funds. The SDHC and HUD Los Angeles Office disagreed with our recommendation. Therefore, on November 21, 1997, we referred the matter to the Assistant Secretary for Public and Indian Housing. We met with the Assistant Secretary on February 4, 1998, and he orally agreed that the SDHC would repay the disputed overpayments, but a subsequent written response on February 20, 1998, did not agree. On February 24, 1998, we advised the Assistant Secretary of our disagreement in writing. The Assistant Secretary again verbally expressed agreement with OIG's position; however, the Assistant Secretary has resigned and the Deputy Assistant Secretary has not submitted a written response clarifying the management decision. (Report No. 97-SF-203-1005)

### ***Sales of HUD Owned Properties, Single Family Real Estate Owned Branch, Arizona State Office***

*Issued September 4, 1997.* HUD's policy on sales of real estate it owns allows mortgages to be based on the sales price, even if greater than the property's appraised value. This results in higher insured mortgages than HUD allows under other single family sales where HUD is not the seller, increases HUD's insurance risk, and results in the victimization of low- and moderate- income first-time homebuyers who pay excessive prices for the properties. We recommended that HUD immediately change its policy on sales of HUD owned properties to comply with its policy on sales where HUD is not the seller.

On February 2, 1998, we referred this matter to the former Assistant Secretary for Housing and met with him on February 24, 1998. On April 14, 1998, the Acting General Deputy Assistant Secretary for Housing agreed with our recommendation and plans to issue a notice by June 1, 1998, implementing the policy change. (Report No. 97-SF-123-0002)

## Significant Management Decisions With Which OIG Disagrees

Section 5(a)(12) of the Inspector General Act of 1978, as amended, requires that the OIG report information concerning any significant management decision with which the OIG is in disagreement. During the reporting period, there was one significant management decision made with which OIG disagreed.

### ***CDBG Program, City of Huntington, WV***

*Issued on July 10, 1992.* Our report disclosed that the grantee did not administer the Special Economic Development Revolving Loan Fund Program according to federal regulations and guidelines. As a result, the grantee awarded ineligible and unsupported loans to borrowers amounting to \$4.5 million. The audit disclosed that the grantee was not: supporting achievement of national program objectives; conducting on-site monitoring of borrowers; ensuring that funding provided to borrowers was necessary and appropriate; documenting the eligibility of borrower loan expenditures; or following its own program guidelines when processing loan applications. We recommended the grantee repay nearly \$2.18 million from non-federal funds and review loans valued at nearly \$2.48 million for compliance with CDBG and grantee regulations and requirements. The issues were referred to the Headquarters Office of Community Planning and Development by the field office.

On November 12, 1997, the Deputy Assistant Secretary (DAS) for Grant Programs requested our concurrence in a revised management decision reducing the amount in question from \$4.5 to \$2.58 million and allowing the city an opportunity to submit documentation demonstrating that the \$2.58 million spent did in fact meet program requirements.





On December 17, 1997, we notified the DAS that we disagreed with his position and recommended the matter be referred to the former Deputy Secretary for resolution. We have received no response from the DAS. (Report No. 92-PH-241-1009)

## Reopened Issues

HUD management is responsible for closing recommendations when they determine all corrective actions have been completed. Sometimes, OIG becomes aware of inappropriate closures during either special reviews, called corrective action verifications, or during subsequent audit work concerning the same issues previously reported. These reviews provide an element of quality control over the audit resolution process. Recommendations inappropriately closed are reopened and cannot be closed without our review, which means that HUD management must address the problems originally reported. Discussed below are significant recommendations where we found that HUD management reported closure before all agreed upon actions were implemented.

### ***Department of Housing and Community Development, Maricopa County, Phoenix, AZ***

*Issued September 24, 1993.* We reported that the Housing Authority of Maricopa County's (HAMC) procurement procedures did not ensure that goods and services were necessary and obtained at the best prices available through free and open competition, and that contracts were properly monitored. We recommended that HAMC implement an effective procurement plan that met federal, state and its own requirements.

We found that HAMC's procedures did not ensure Section 8 rents were reasonable and available Section 8 certificates were fully utilized. We recommended HAMC improve its procedures for determining rent reasonableness and implement a program to ensure use of all available Section 8 certificates. Also, we reported that HAMC may have overpaid \$235,000 because it failed to update and implement utility allowances for its conventional and Section 8 Programs. We recommended that HAMC analyze its proposed utility allowances to ensure the allowances are based on correct rates and consumption data and adjust tenant rents based on the updated allowances.

In September 1996, we completed a review and found the recommendations had been closed although corrective action had not been completed. We therefore reopened the recommendations. On March 7, 1997, all recommendations were again closed based on reported corrective actions. However, a subsequent corrective action verification review determined that the information submitted was not sufficient to conclude that final actions had been implemented. Therefore, we reopened the recommendations once again. We plan to refer this matter to the Deputy Assistant Secretary for Public and Indian Housing for action. (Report No. 93-SF-202-1016)

### ***Villa San Carlos Apartments, Santa Cruz, CA***

*Issued February 18, 1993.* We found that the mortgagor, Villa San Carlos, did not use proper procurement procedures to obtain services and supplies. We recommended that the mortgagor establish and implement a procurement policy that would require obtaining necessary services and supplies at fair and reasonable prices.

In August 1993, the recommendation was closed based on promised corrective action. However, in March 1998, we conducted another audit of Villa San Carlos Apartments and found that procurement practices were still inadequate. Therefore, we reopened the recommendation. (Report Nos. 93-SF-212-1006 and 98-SF-212-1001)

### ***District of Columbia Housing Authority, Washington, DC***



*Issued June 18, 1996.* We found excess Section 8 housing assistance payments to landlords totaling approximately \$440,000, and recommended the Authority recover all appropriate portions of the \$440,000.

In December 1996, we closed the recommendation based on a response from the Housing Authority that corrective actions had been implemented. However, in March 1998, we completed a corrective action verification and found the Authority's efforts to collect excess payments from landlords to be unsatisfactory. Therefore, we reopened the recommendation. (Report No. 96- AO-203-1002)



# APPENDIX 1 - AUDIT REPORTS ISSUED

Internal Reports	
Single Family	Audit Reports
98-AO-123-0001	Audit of the Single Family Real Estate Owned Pilot Contracts, January 30, 1998.
98-FO-131-0003	FHA, Audit of Fiscal Year 1997 Financial Statements, March 9, 1998.
PIH	
98-BO-101-0001	HUD's Approval of Demolition Application for Crescent Court, Brockton, MA, November 6, 1997. Questioned: \$982,080.
98-FO-101-0001	Audit of HUD's FY 1996 HOPE VI Grant Award Process, October 20, 1997.
98-SE-107-0002	Secretarial Request, Oversight of Indian Housing Programs, February 23, 1998.
CPD	
98-SE-148-0001	Citizen Complaint, City of Seattle, WA, Section 108 Loan Guarantee, Acquisition of Frederick & Nelson Bldg., November 17, 1997.
Administration	
98-DP-166-0001	Interim Review of HUDCAPS Performance - Year 2000 Compliance, January 6, 1998.
Miscellaneous	
98-FO-171-0002	Audit of the Government National Mortgage Association's Fiscal Year 1997 Financial Statements, March 9, 1998.
98-FO-177-0004	Audit of Fiscal Year 1997 Financial Statements, March 20, 1998.
Audit-Related Memoranda	
Multifamily	
98-NY-112-0801	Proposed Financing Plan for Jose De Diego Beekman Houses, October 10, 1997.
98-NY-112-0802	Riverside South Apartments, New York, NY, December 18, 1997.
PIH	

98-SE-107-0806	NWONAP Oversight of Cascade Inter-Tribal Housing Authority, March 30, 1998.
Miscellaneous	
98-HQ-179-0801	Interim Review of HUD 2020 Management Reform Plan, November 25, 1997.
External Reports	
PIH	Audit Reports
98-AT-201-1001	Review of the Housing Authority of the City of Alma, GA, January 20, 1998. Questioned: \$740,859; Unsupported: \$620,930.
98-AT-206-1004	Housing Authority of the City of Atlanta, GA, Audit of Low-Income Housing, March 31, 1998. Questioned: \$3,410,535; Unsupported: \$518,457.
98-BO-209-1001	City of New Haven, CT Housing Authority, Drug Elimination Program, October 6, 1997. Questioned: \$994,199; Unsupported: \$994,199.
98-BO-204-1002	New Haven, CT Housing Authority, HOPE VI Grant, October 28, 1997. Questioned: \$852,727; Unsupported: \$852,727.
98-DE-207-1001	Muckleshoot Housing Authority, Traditional Indian Housing Development Program, Auburn, WA, December 19, 1997.
98-FW-206-1001	Lubbock, TX Housing Authority (OSH), October 24, 1997. Questioned: \$1,556,090; Unsupported: \$507,866.
98-FW-201-1002	New Orleans, LA Housing Authority, Contract with Tucker and Associates, Inc., October 24, 1997. Questioned: \$91,367; Unsupported: \$89,901.
98-FW-201-1003	El Paso, TX Housing Authority, HOPE VI Grants, March 6, 1998.
98-SE-207-1001	Congressional Inquiry, Citizen Complaint, Cascade Inter-Tribal Housing Authority, Sedro Woolley, WA, January 30, 1998.
Multifamily	
98-NY-214-1001	Limited Review of Braco I - Multifamily Operations, Buffalo, NY, October 24, 1997. Questioned: \$800,612.
98-PH-212-1002	Caru and Caru East Apartments, Multifamily Mortgagor Operations, Roanoke, VA, November 25, 1997. Questioned \$541,704; Unsupported: \$86,652.
98-SF-212-1001	Villa San Carlos Garden Apartments, Multifamily Mortgagor Operations, Santa Cruz, CA, March 24, 1998. Questioned: \$302,180; Unsupported: \$98,377.
98-SF-212-1002	Redwood Villa, Multifamily Mortgagor Operations, Mountain View, CA, March 31, 1998. Questioned: \$330,644.
Single Family	
98-NY-222-1002	Aberte Realty, Inc., Real Estate Asset Manager Contract, Buffalo, NY, March 30, 1998. Questioned: \$5,975; Unsupported: \$5,975.
CPD	

98-AT-255-1002	City of Homestead, FL Home Disaster Relief Grants, March 13, 1998. Questioned: \$1,457,441; Unsupported: \$1,406,296.
98-AT-241-1003	City of Miami, FL Community Planning and Development Programs, March 26, 1998. Questioned: \$8,387,491; Unsupported: \$5,203,607.
98-PH-241-1001	Virginia Beach, VA CDBG Program, November 6, 1997. Questioned \$3,231,393; Unsupported: \$3,167,566.

## Administration

18 Audits Issued by Other Federal Auditors. Questioned: \$319,258.

## Miscellaneous

98-KC-241-1001	Kansas City, MO Housing Authority, Job Order Contracting Program, March 10, 1998. Questioned: \$614,000.
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## Audit-Related Memoranda

## PIH

98-AO-203-1801	Department of Housing and Community Development, Diversion of Section 8 Funds, Fairfax County, VA, January 30, 1998.
98-AO-203-1802	Corrective Action Verification - Section 8 Certificate and Voucher Payments System (96-AO-203-1002), Washington, DC, March 3, 1998. Questioned: \$227,373; Unsupported: \$227,373.
98-CH-203-1803	Columbus, OH Metropolitan Housing Authority, Section 8 Program, December 4, 1997. Questioned: \$286; Unsupported: \$286.
98-CH-201-1804	Detroit, MI Housing Commission, Update of Progress Made on Agreements With HUD, December 11, 1997.
98-CH-204-1807	Columbus, OH Metropolitan Housing Authority, Supplemental Police Services, January 23, 1998. Questioned: \$43,965; Unsupported: \$43,965.
98-FW-202-1801	Corpus Christi, TX Housing Authority, Lead-Based Paint and Security of Vacant Units in Low-Rent Program, October 14, 1997.
98-FW-202-1804	Muskogee, OK Housing Authority, Congressional Inquiry Regarding Operations, November 5, 1997. Questioned: \$27,059; Unsupported: \$27,059.
98-FW-202-1806	Brownsville, TX Housing Authority, Comprehensive Grant Accounting, Procurement, Equipment Inventories and Cost, January 2, 1998.
98-FW-206-1807	Crystal City, TX Housing Authority, Financial Condition, Procurement, Section 8 Eligibility and Admin Costs (OSH), January 29, 1998. Questioned: \$223,743; Unsupported: \$203,660.
98-FW-201-1808	New Orleans, LA Housing Authority, Evictions for Drugs and Criminal Behavior, March 3, 1998.

## Multifamily

98-AT-211-1801	Multifamily Project Operations, Bethel Community Heights Apartments, St. Petersburg, FL, October 22, 1997. Questioned: \$123,916.
98-AT-212-1802	Bucare Management Corporation, Management Agent, San Juan, PR, November 17, 1997. Questioned: \$22,290; Unsupported: \$15,600.

98-AT-211-1803	Multifamily Project Operations, 183rd Street Apartments, Miami, FL, November 18, 1997. Questioned: \$17,172.
98-CH-211-1801	Highland Management Company, Multifamily Equity Skimming, Southfield, MI, November 19, 1997.
98-CH-211-1802	Dearborn Place Apartments, Multifamily Equity Skimming, Chicago, IL, November 20, 1997.
98-CH-211-1806	Sheridan Plaza Apartments, Multifamily Equity Skimming, Chicago, IL, January 21, 1998.
98-FW-211-1803	Greater Muskogee, OK Community Foundation, Up Front Grant, November 5, 1997. Questioned: \$36,908; Unsupported: \$36,908.
98-PH-214-1802	Human Resource Development Employment, Inc., (HRDE), Management Agent Operations Survey, Morgantown, WV, November 12, 1997. Questioned: \$6,000.

## Single Family

98-CH-229-1805	Hotline Complaint, Section 203(k) Rehabilitation Home Mortgage Insurance Program, Grand Rapids, MI, January 14, 1998.
98-FW-229-1802	Section 203(k) of the National Housing Act, Tulsa, OK, October 23, 1997.
98-NY-221-1801	Real Estate Brokers/Sellers Circumventing FHA Requirement Regarding Gifts to Borrowers, Buffalo, NY, January 21, 1998.

## CPD

98-DE-249-1801	Cole Coalition, Youthbuild Program, Denver, CO, March 2, 1998.
98-FW-241-1805	City of Fort Smith/McGill Center, Inc., HOME Housing Rehabilitation, Fort Smith, AR, November 17, 1997.
98-FW-241-1809	City of Tulsa, OK, CDBG Program, Citizens' Complaints, March 6, 1998.
98-NY-250-1802	Village of Fort Plain, NY, CDBG Small Cities Program, January 22, 1998.
98-PH-241-1801	Altoona, PA CDBG Program Survey, October 29, 1997.

**TABLE A**  
**AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH**  
**NO MANAGEMENT DECISION AT 3/31/98**

\*Significant Audit Reports Described in Previous Semiannual Reports

Report Number & Title	Reason for Lack of Management Decision	Issue Date/ Target for Management Decision
*96HQ0802. HUD Relationships with Nonprofit Organizations.	Report referred to the Deputy Secretary on January 30, 1997. Agreement was reached with the Deputy Secretary on one of the four issues. The Deputy Secretary did not submit management decisions on the three remaining issues, but HUD is considering our recommendations as it implements management reforms.	08/08/96 09/30/98
*93HQ0004. Bond Refundings of Section 8 Projects.	Of five recommendations reopened on January 22, 1997, two remain unresolved. Report was referred to the Deputy Secretary on November 19, 1997. The Deputy Secretary requested a legal opinion from the Office of General Counsel. We are waiting for the legal opinion.	01/22/97 09/30/98
97AT0001. Section 203(k) Rehabilitation.	Report referred to Deputy Secretary on June 30, 1997. The decision on one recommendation has been postponed until HUD decides whether or not it will implement a new rehabilitation program.	02/06/97 09/30/98
97NY0802. Riverside South Apartments.	OIG disagrees with the Assistant Secretary for Housing, the Deputy Secretary, and with a legal opinion from the Office of General Counsel.	02/21/97 09/30/98
97FW0001. Fair Housing and Public Housing Offices, Beaumont, TX.	Report referred to Assistant Secretary for Fair Housing and Equal Opportunity on March 2, 1998. OIG has not received a response.	06/03/97 09/30/98
97SF0002. Sale of HUD-owned Properties - Arizona State Office.	Report referred to Assistant Secretary for Housing on February 2, 1998. On April 14, 1998, agreement was reached with the Office of Housing.	09/04/97 06/30/98
97KC0001. Low-Income Housing Tax Credit Program.	OIG has not received a response from the Office of Public and Indian Housing.	05/23/97 06/30/98
97PH0001. HUD Contracting.	OIG received a response to the report on March 10, 1998, and is evaluating the response.	09/30/97 09/30/98
97SF1005. San Diego Housing Commission - Limited Review of Contract Rents.	Report referred to Assistant Secretary for Public and Indian Housing on November 21, 1997. We are waiting for a written response clarifying their position on one recommendation.	07/29/97 06/30/98

**TABLE B****APPENDIX 2**

**SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS  
WHERE FINAL ACTION HAS NOT BEEN COMPLETED AS OF 3/31/98**

Report Number	Report Title	Issue	Decision	Final Action
91TS0001	Limited Review of HUD's Process for Determining Undue Concentration of Assisted Persons	10/19/90	10/01/91	Note 1
92PH1003	Baltimore MD Community Development Block Grant Program	03/04/92	06/23/92	Note 2
92TS0007	Audit of Fiscal Year 1991 Financial Statements, Federal Housing Administration	03/27/92	09/29/92	06/03/99
92TS0011	Audit of Fiscal Year 1991 HUD Consolidated Financial Statements	06/30/92	09/30/94	Note 1
92PH1009	Huntington WV Community Development Block Grant Program	07/10/92	11/07/92	Note 1
92SF1009	San Francisco CA Housing Authority, Low-Income Public Housing Program	09/10/92	01/08/93	Note 1
93HQ0004	Interim Audit of Bond Refundings of Section 8 Projects	10/30/92	10/26/93	Note 1
93NY1002	New York Department of Housing Preservation and Development	01/29/93	07/06/93	09/01/02
93HQ0005	Limited Review of HUD's Management and Control of Staff Resources	03/08/93	09/30/93	Note 1
93FO0003	Audit of Federal Housing Administration's Fiscal Year 1992 Financial Statements	04/30/93	03/31/94	12/31/98
93FO0004	Audit of HUD's Fiscal Year 1992 Consolidated Financial Statements	06/30/93	03/31/94	Note 2
93SF1012	Los Angeles CA Community Development Block Grant Program	09/17/93	09/30/94	Note 1
93SF1016	Maricopa County CA, Department of Housing and Community Development	09/24/93	01/21/94	04/30/98
93FW1016	Anthony and Associates, Inc.	09/28/93	12/10/93	01/31/98
94FO0002	Audit of Fiscal Year 1993 Financial Statements - Federal Housing Administration	06/08/94	09/12/94	Note 1
94FO0003	Audit of Fiscal Year 1993 HUD Consolidated Financial Statements	06/30/94	01/27/97	Note 2
95FO0003	Audit of the Federal Housing Administration's Fiscal Year 1994 Financial Statements	05/19/95	03/15/96	Note 2
95BO1004	Woodview Apartments, Multifamily Mortgagor Operations, East Haven CT	05/31/95	11/22/95	06/15/98
95CH1009	Alliance Mortgage Corporation, Single Family Mortgage Insurance Program, Villa Park IL	08/08/95	11/30/95	06/30/99
96SF1002	Pascua Yaqui Housing Authority, Tucson AZ	02/13/96	06/11/96	Note 2
96DE1003	City Wide Mortgage, Nonsupervised Mortgagee, Smyrna GA	03/08/96	06/12/96	Note 2
96AT1821	Puerto Rico Public Housing Administration, Comprehensive Grant and Drug Elimination Programs, San Juan PR	06/26/96	12/10/96	Note 2
96PH1019	Oakmont North Apartments, I, II, and III, Multifamily Mortgagor Operations, Norfolk VA	07/31/96	08/09/96	Note 2
96PH1020	Herring Manor, Multifamily Project Operations, Wilmington DE	08/13/96	12/06/96	12/06/97
96FO0003	HUD Fiscal Year 1995 Financial Statements	08/16/96	02/12/97	06/30/99
96SF1808	Pascua Yaqui Neighborhood Association, Inc., Tenant Opportunities Program, Tuscon AZ	09/20/96	01/23/97	Note 2
96FW1003	Little Flower Estates, Multifamily Insured Project, Ponchatoula LA	09/23/96	03/14/97	01/15/99
96DP0002	Multifamily Information Systems	09/30/96	03/31/97	Note 2
96SF1006	Christian Church Homes, Management Agent, Oakland CA	09/30/96	03/03/97	Note 2
97BO1801	Equity Skimming Review, Boston MA	11/18/96	03/11/97	05/01/99
97PH1002	Newport News General Hospital, Section 242 Hospital Program, Newport News VA	12/09/96	03/26/97	Note 2
97CH1003	Columbus OH Metropolitan Housing Authority, Comprehensive Improvement Assistance & Grant Programs	12/18/96	04/16/97	05/31/98
97BO0002	HUD's Public Housing Development Program Acquisition Method, Boston MA	01/07/97	05/07/97	04/30/98
97AT1001	Memphis TN Housing Authority	01/13/97	03/31/98	09/30/98



**TABLE C**  
**INSPECTOR GENERAL ISSUED REPORTS WITH**  
**QUESTIONED AND UNSUPPORTED COSTS AT 03/31/98**  
(DOLLARS IN THOUSANDS)

Reports	Number of Audit Reports	Questioned Costs	Unsupported Costs
A1 For which no management decision had been made by the commencement of the reporting period	15	12,656	5,139
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	9	10,179	2,871
A3 For which additional costs were added to reports in beginning inventory	—	6,346	1,069
A4 For which costs were added to non-cost reports	3	2,124	2
B1 Which were issued during the reporting period	30	25,347	14,424
B2 Which were reopened during the reporting period	—	—	—
Subtotals (A+B)	57	56,652	23,505
C For which a management decision was made during the reporting period	31 <sup>1</sup>	24,226	10,167
(1) Dollar value of disallowed costs:			
• Due HUD	14 <sup>2</sup>	11,835	2,719
• Due Program Participants	22	10,992	6,324
(2) Dollar value of costs not disallowed	6 <sup>3</sup>	1,400	1,124
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	10	16,267	4,690
E For which no management decision had been made by the end of the reporting period	16 [33] <sup>4</sup>	16,159 [16,063] <sup>4</sup>	8,648 [8,648] <sup>4</sup>

<sup>1</sup> 1 audit report also contains recommendations that funds be put to better use.

<sup>2</sup> 5 audit reports also contain recommendations with funds due program participants.

<sup>3</sup> 6 audit reports also contain recommendations with funds agreed to by management.

<sup>4</sup> The figures in brackets represent data at the recommendation level as compared to the report level. See Table D for Explanation.

Report Number	Report Title	Issue	Decision	Final Action
97PH1004	Philadelphia PA Housing Authority, Assessment of Progress	01/14/97	05/05/97	03/31/99
97AT1002	City of Gulfport MS, Community Development Block Grant Program	01/27/97	05/21/97	04/30/98
97NY1001	Pilgrim Village Associates, Multifamily Project Operations, Buffalo NY	01/31/97	05/28/97	05/27/98
97KC0801	Multifamily Housing Programs, Multi-District Review of Excess Insurance Proceeds	02/05/97	07/16/97	03/31/98
97AT0001	Section 203(k) Rehabilitation Mortgage Insurance Program	02/06/97	Note 3	
97FW1001	Houston TX, Community Development Block Grant Program, Procurement for Rehab of Multifamily Projects	02/14/97	06/02/97	06/02/98
97AT0002	Tenant Opportunity Program, Grantees of Atlanta Housing Authority Developments, Atlanta GA	02/21/97	06/18/97	Note 2
97NY0802	Riverside South Apartments, New York NY	02/21/97	Note 3	
97BO0803	Review of Multifamily Enforcement Actions, Connecticut State Office, New Haven CT	02/26/97	06/24/97	Note 2
97NY1002	Montgomery County Community Development Program, Fonda NY	03/14/97	07/23/97	07/23/98
97NY1003	Binghamton NY Housing Authority, Low-Rent Housing Program	03/27/97	07/24/97	Note 2
97SF1002	Granada Gardens CA, Use of HUD's Earthquake Loan Program (HELP) Funds	04/14/97	07/16/97	06/30/98
97SE1003	Southern Puget Sound Inter-Tribal Indian Housing Authority, Shelton WA	04/15/97	10/21/97	06/30/98
97AT1806	Limited Review of Martin Street Plaza, Atlanta GA	04/17/97	07/14/97	06/30/98
97AT1808	City of Savannah GA and Neighborhood Housing Services Inc., Savannah CDBG, HOME & HOPE 3 Programs	05/05/97	08/25/97	08/31/98
97DE1003	Turtle Mountain Housing Authority, Housing Development Program, Belcourt ND	05/21/97	09/09/97	12/31/98
97CH1007	Developing Economical and Better Living, Inc., Single Family Direct Sales Program, Chicago IL	05/22/97	09/19/97	09/30/98
97KC0001	Review of Low-Income Housing Tax Credits Program	05/23/97	Note 3	
97PH1808	Lafayette Villa Nursing Home, Mortgagor Operations, Norfolk VA	05/28/97	10/15/97	05/28/98
97BO0804	Interim Report: Public Housing Drug Elimination Program, New Haven CT	06/02/97	09/30/97	06/30/98
97CH1008	Indianapolis IN Public Housing Agency, Low-Income Housing Program	06/12/97	10/06/97	09/30/98
97NY1005	Buffalo NY Neighborhood Revitalization Corp, City Properties Rehabilitation Program	06/30/97	12/04/97	Note 2
97AT1003	Municipality of Mayaguez PR, CDBG and Section 108 Loan Guarantee Assistance Programs	07/01/97	10/29/97	10/15/99
97SF0802	Monitoring of Real Estate Management Contract, Real Estate Owned Branch	07/23/97	11/20/97	05/31/98
97SF1005	Limited Review of Contract Rents, Section 8 HAP Program, San Diego CA Housing Commission	07/29/97	Note 3	
97FW1003	Medlock Southwest Management Corporation, Multifamily Management Agent, Lubbock TX	08/26/97	01/16/98	12/15/98
97AT0803	Review of HUD Procedures for Approval of Section 203(k) Program Consultants	08/27/97	01/05/98	01/05/99
97FW1004	Galveston TX Housing Authority, Low-Rent Program Procurement, Cash Management, Drug Elimination Grant	09/03/97	01/02/98	12/31/98
97SF0002	Sales of HUD-Owned Properties, Single Family Real Estate Owned Branch, Arizona State Office	09/04/97	Note 3	
97CH1010	Major Mortgage Corporation, Section 203(k) Rehabilitation Home Mortgage Insurance Program, Livonia MI	09/17/97	01/06/98	07/31/98
97CH1011	Hough Area Partners In Progress, Inc., CDBG Program, Empowerment Zone Program, Cleveland OH	09/24/97	01/15/98	12/15/98
97NY1006	Troy NY Housing Authority, Low-Rent Housing Program	09/29/97	12/02/97	08/31/98
97DP0001	HUDCAPS Access Controls Need Improvement	09/30/97	02/20/98	03/31/98
97PH0001	HUD Contracting	09/30/97	Note 3	

#### AUDITS EXCLUDED:

15 audits under repayment plans  
34 audits under formal judicial review, investigation, or legislative solution

#### NOTES:

1 Management did not meet the target date. Target date is over 1 year old.  
2 Management did not meet the target date. Target date is under 1 year old.  
3 No management decision.

**TABLE D**  
**INSPECTOR GENERAL ISSUED REPORTS**  
**WITH RECOMMENDATIONS**  
**THAT FUNDS BE PUT TO BETTER USE**  
**AT 03/31/98**  
(DOLLARS IN THOUSANDS)

Reports		Number of Audit Reports	Dollar Value
A1	For which no management decision had been made by the commencement of the reporting period	2	3,467
A2	For which litigation, legislation or investigation was pending at the commencement of the reporting period	1	546
A3	For which additional costs were added to reports in beginning inventory	—	—
A4	For which costs were added to non-cost reports	—	—
B1	Which were issued during the reporting period	—	—
Subtotals (A + B)		3	4,013
C	For which a management decision was made during the reporting period	1 <sup>1</sup>	102
(1)	Dollar value of recommendations that were agreed to by management <ul style="list-style-type: none"> <li>• Due HUD</li> <li>• Due Program Participants</li> </ul>	1 0	102 0
(2)	Dollar value of recommendations that were not agreed to by management	0	0
D	For which management decision had been made not to determine costs until completion of litigation, legislation or investigation	2	3,911
E	For which no management decision had been made by the end of the reporting period	—	—

<sup>1</sup> 1 audit report also contains recommendations with questioned costs.

## **EXPLANATIONS OF TABLES C AND D**

The Inspector General (IG) Amendments of 1988 require Inspectors General and agency heads to report cost data on management decisions and final actions on audit reports. The current method of reporting at the "report" level rather than at the individual audit "recommendation" level results in misleading reporting of cost data. Under the Act, an audit "report" does not have a management decision or final action until all questioned cost items or other recommendations have a management decision or final action. Under these circumstances, the use of the "report" based rather than the "recommendation" based method of reporting distorts the actual agency efforts to resolve and complete action on audit recommendations. For example, certain cost items or recommendations could have a management decision and repayment (final action) in a short period of time. Other cost items or nonmonetary recommendation issues in the same audit report may be more complex, requiring a longer period of time for management's decision or final action. Although management may have taken timely action on all but one of many recommendations in an audit report, the current "all or nothing" reporting format does not take recognition of their efforts.

The closing inventory for items with no management decision on Tables C and D (Line E) reflects figures at the report level as well as the recommendation level.